SIMONA

Financial Statements 2016

SIMONA AG

Contents

COMBINED MANAGEMENT REPORT

FINANCIAL STATEMENTS

Combined Management Report for the 2016 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 Group 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 Products 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

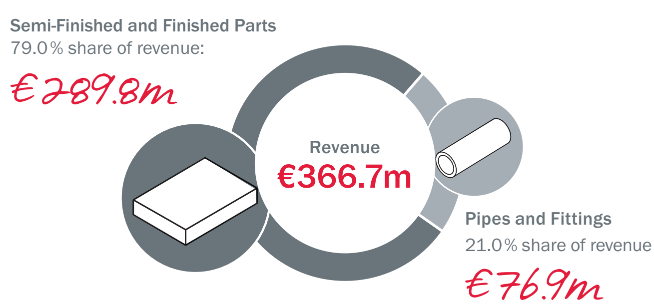
The secondary classification is based on product areas:

- 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.

REVENUE BY PRODUCT AREA (in €m)



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) and Gerhard Flohr (Employee Representative).

1.2 Objectives and strategies

Focusing invariably on customer value, the SIMONA Group sees itself as a global solution provider for plastics applications. Superior operations technology and premium-quality products together with reliable, efficient and speedy processes are hallmarks of SIMONA. 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 6–8 per cent.

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

- Enhanced innovatory abilities
- More pronounced growth in the emerging markets
- 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, the Business Development structure agreed in 2015 with regard to the market segments Construction, Agriculture and Mobility was implemented in the period under review, which included the appointment of staff members to the respective functions. The Technology Centre opened in 2016 has added to the company's R&D capabilities. It also brings together at a single location the various departments involved in the process of innovation. Efforts to develop new products are being stepped up around the globe. Among the prime examples are applications within the area of mobility being spearheaded by Boltaron Inc., our subsidiary in the United States, or the market for pipes and fittings in Asia. As for the emerging markets, SIMONA is increasingly looking to establish a local presence in these regions. With this in mind, a subsidiary company was founded in India in 2016 in order to better exploit the potential for polymer applications in this burgeoning market. In addition, SIMONA introduced sales and distribution structures for pipes and fittings in Asia. When it comes to operational excellence, the objective set is to raise productivity levels gradually at all plants and in all processes. In 2016, the Semi-Finished and Finished Parts division in particular made further progress in this area.

1.3 Internal management 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	2016	2015
EBIT under IFRS	13.6	15.2
Change in inventories	1.8	–0.8
Staff costs (pensions)	2.5	2.4
Depreciation/amortisation/write-downs of intangible assets and property, plant and equipment	1.3	1.1
Other changes	–0.4	–1.0
EBIT under HGB	18.8	16.9

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 and energy 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 2016.

The new Technology Centre at the Group headquarters in Kirn was officially opened in July 2016. The event was attended by the state premier of Rhineland-Palatinate, Malu Dreyer. The Technology Centre has commenced full operations. Its goal is to enhance the Group's capabilities as an innovator with the help of more expansive R&D capacities, lean structures, a high degree of knowledge transfer and a broader choice of materials.

The product range offered by the Semi-Finished and Finished Parts division was extended to include the high-performance plastic PFA (perfluoroalkoxy), which is used primarily in the chemical and electroplating sector, in the semiconductor industry and in the area of energy and environmental technology. The third generation of twin-wall sheets was unveiled at the world's leading plastics trade fair, "K", in October 2016 and is to be launched onto the market during the second quarter of 2017. These sheets combine excellent efficiency with superior stability. SIMONA also showcased the prototype of a wear protection sheet at the "K" trade show in Düsseldorf. This is a multilayer sheet made of PE-HD. Featuring a functional wear layer, it has been designed mainly for applications in the area of bulk materials handling. Committed to building on its expertise as engineering consultants in the core "Industry" market, SIMONA launched the tank calculation program "SmartTank" in the period under review. Using state-of-the-art methods and featuring a user-friendly project management function, the application is capable of calculating cylindrical and rectangular tanks in accordance with DVS (Deutscher Verband für Schweißen und verwandte Verfahren) requirements.

In the Pipes and Fittings division, the focus was on establishing and expanding the market segment of mining (pilot projects with multilayer piping system AP-Line) and repair/rehabilitation (PP interconnecting modules for Tight-in-Pipe method, extension of fittings range). Efforts within the area of injection moulding were stepped up by channelling funds into multi-tools among other things.

Expenses attributable to research and development within the Group amounted to €3,950 thousand in the period under review (previous year: €3,608 thousand). These expenses are mainly comprised of staff costs, material costs and depreciation of property, plant and equipment.

2. BUSINESS REVIEW

2.1 Macroeconomic and sector-specific environment

According to data presented by the International Monetary Fund (IMF), the global economy is likely to have grown by 3.1 per cent in 2016, which is comparable to the rate of growth recorded in the previous year. Industrial output in the advanced economies rose by just two per cent, while the emerging countries recorded growth of four per cent. The situation was dominated by sluggish demand-side momentum and a sustained dip in investment spending. At the same time, there were hardly any gains made with regard to productivity.

Germany again recorded solid economic growth. According to preliminary data presented by the Federal Statistical Office, price-adjusted GDP rose by 1.9 per cent (2015: 1.7 per cent). As in the past, growth was driven by private and public-sector consumption. At the same time, however, investments within the area of construction (+3.1 per cent) and machinery/equipment (+1.7 per cent) also contributed to growth. The number of people in employment reached 43.5 million, the highest level since 1991. Growth in the eurozone as a whole was also stable. Based on initial projections by the European Commission, GDP for the 19 member states within the euro area rose by 1.7 per cent (2015: 1.6 per cent). Alongside Germany, Spain proved to be a key growth driver with economic growth of 3.0 per cent. The economies of France (+1.1 per cent) and Italy (+1.0 per cent) remained sluggish.

The rate of growth in the United States, meanwhile, fell short of expectations. While the US economy continued on a path of moderate recovery, the scale of expansion is thought to be minuscule. After two weak first quarters growth for the year as a whole is likely to stand at around 1.5 per cent. Low energy prices in the first half of the year, a strong dollar and anaemic capital expenditure on machinery and equipment are among the key influencing factors.

According to preliminary data, the Chinese economy expanded by 6.7 per cent in real terms. Benefiting from monetary and fiscal policy measures at the beginning of the year, it continues to develop in line with government targets. The country is in the midst of a structural transition towards services and a stronger focus on domestic consumption. Private investment rose by a mere three per cent, whereas state-led capital expenditure on infrastructure projects increased by around 20 per cent.

Germany's plastics processing industry put in a solid performance in 2016. According to data presented by the Association of the Plastics Processing Industry, total revenue within this sector expanded by 3.2 per cent to €60.8 billion. The overall volume of plastics processed was also higher than in the previous year, rising by 3.6 per cent to 14.1 million tonnes. At 3.6 per cent, foreign sales rose much faster than those from domestic business (2.8 per cent). In terms of sub-sectors, Construction (+4.7 per cent) and Packaging (+4.4 per cent) were the most prominent growth drivers. 61 per cent of member companies surveyed by the Association of the Plastics Processing Industry reported an increase in revenues for 2016. At the same time, however, the number of those stating that revenues had fallen rose sharply from 11 to 19 per cent.

Chemical production in Germany proved lacklustre in 2016, with preliminary data issued by industry association Verband der chemischen Industrie e.V. suggesting growth of 0.5 per cent in output. Revenues generated in this industry were approx. 3 per cent lower year on year due to price reductions associated with chemicals and pharmaceuticals. Revenue from domestic sales declined by 4 per cent, while foreign sales fell by 2.5 per cent.

Production output in Germany's mechanical and plant engineering industry remained stagnant in 2016. Based on preliminary data presented by the Federal Statistical Office, production fell by 0.2 per cent in real terms. The German Engineering Association (VDMA) cites increasing investor scepticism in the second half of the year as a key determinant. A downturn in China and the United States – in some cases severe – was offset by business in Europe and a number of smaller markets.

Revenues generated in the German construction industry rose by 6.3 per cent year on year in 2016. This positive performance was underpinned above all by public-sector projects and construction work in the housing sector. Growth in the area of public-sector construction stood at 6.4 per cent, while the housing sector expanded by 8.5 per cent. The commercial building sector suffered a sharp downturn in order intake in November. The month of December proved much more dynamic, as a result of which revenue generated over the year as a whole increased by 3.9 per cent.

The market for aircraft interiors expanded by 4 per cent in 2016 according to data issued by market intelligence agency Counterpoint. This industry continued to benefit from higher passenger throughput, particularly in Asia.

2.2 Course of business – SIMONA Group

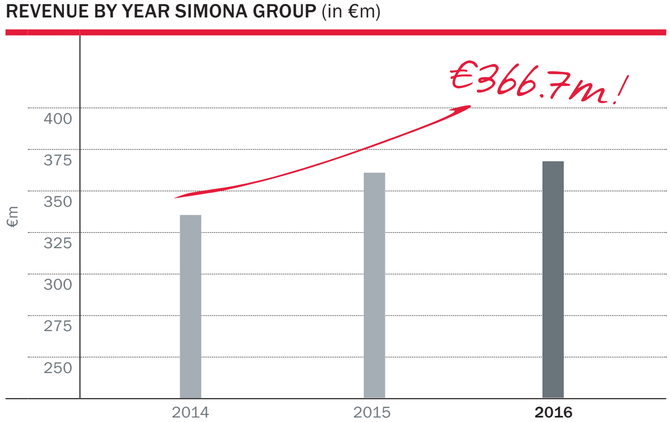
Sales revenue totalled €366.7 million in the 2016 financial year (previous year: €360.3 million). This corresponds to an increase of 1.8 per cent. The direction taken by revenue was dominated by a slight downturn in business in Europe, a gradual recovery in the challenging Asian markets and a strong performance in North America. Competitive forces remained intense for all sales regions and product groups. The Group slightly exceeded its revenue forecast of €355–365 million for the 2016 financial year, as presented in the previous year's Group management report. This was due primarily to an extremely solid performance in the United States. The revenue guidance figures (€360–370 million) presented in the Group interim report for the first half and the press release for the third quarter were met.

Based on Group earnings before interest and taxes (EBIT) of €30.2 million (previous year: €26.7 million), the budgeted EBIT margin (4–6 per cent) as well as the prior-year figure of 7.4 per cent were exceeded by a substantial margin and stood at 8.2 per cent in 2016. EBITDA rose from €40.1 million a year ago to €43.9 million at the end of the reporting period. The EBITDA margin stood at 12.0 per cent, compared to 11.1 per cent for the same period a year ago.

At 11.7 per cent, Group ROCE was up on the prior-year figure (10.5 per cent) as well as the figure originally forecast.

Earnings growth was fuelled in particular by more expansive revenues in the Americas segment and an improved product mix. In terms of expense items, higher other expenses exerted pressure on earnings.

REVENUE BY YEAR SIMONA GROUP (in €m)



Europe

Revenue from sales in the region encompassing "Europe" fell by 1.5 per cent to €257.3 million (previous year: €261.3 million), particularly on account of a decline in business within the Pipes and Fittings division. Germany recorded a slight downturn in revenue of 0.2 per cent. Revenue growth continued in Spain as the local economy maintained its forward momentum. Business in France was adversely affected by the country's sluggish economic performance. The downturn recorded in Russia was offset by moderate revenue growth in Eastern Europe. Owing to the expansion in revenue from sales in the "Americas", the share of total revenue attributable to Europe fell further in the period under review, down from 72.5 per cent to 70.1 per cent. EBIT recorded in the segment categorised as "Europe" declined from €18.3 million in the previous financial year to €17.2 million in the period under review.

Americas

The region comprising the "Americas" saw sales revenue increase by 10.3 per cent to €90.1 million in total (previous year: €81.7 million). The company recaptured market share in the area of Industrial Products and managed to exceed the figures defined in its budget. Business at the subsidiary Boltaron Inc., with its Aviation and Specialty Products division, continued to develop well and was again above budget. This region accounted for 24.6 per cent of total sales revenue, up from 22.7 per cent. The "Americas" segment produced EBIT of €14.4 million (previous year: €9.1 million) in the period under review. The US plants again succeeded in raising their productivity levels.

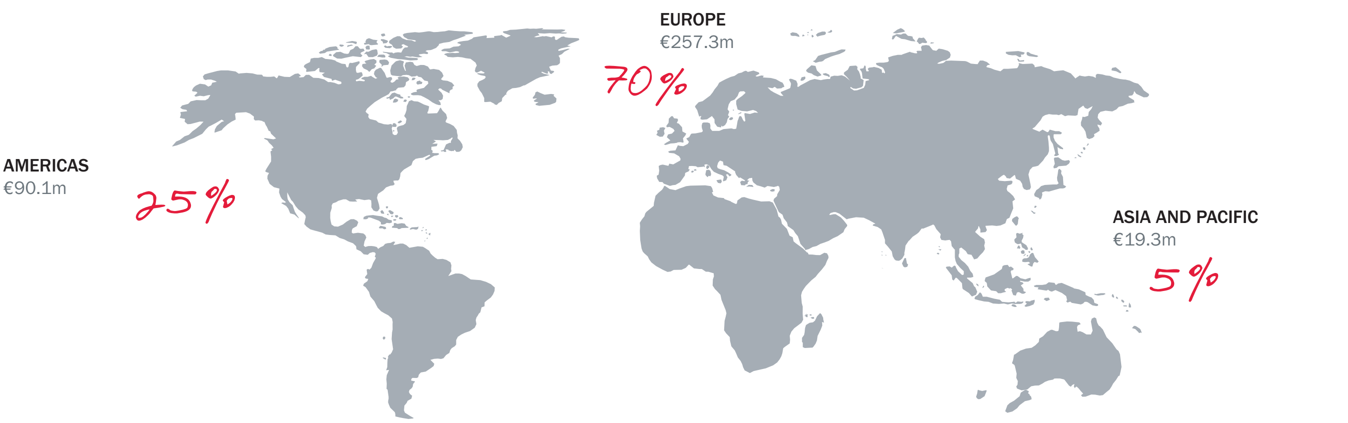
Asia and Pacific

The region covering "Asia and Pacific" saw sales revenue expand by 11.5 per cent to €19.3 million. Business was particularly buoyant in the fourth quarter of 2016. The region as a whole accounted for 5.3 per cent of total revenue, up from 4.8 per cent a year ago. The "Asia and Pacific" segment posted a loss before interest and taxes of €1.2 million (previous year: loss of €0.3 million), which was attributable mainly to currency effects (€–0.8 million).

Sales revenue by product area

The product area comprising Semi-Finished and Finished Parts developed well in 2016. Sales revenue rose by 4.7 per cent to €289.8 million (previous year: €276.9 million). Despite the loss of a key account, the product group consisting of extruded sheets managed to generate growth in the period under review. Business within the product area of pressed sheets and solid rods also

REVENUE BY REGION SIMONA GROUP (in €m)



expanded. In the case of PVC sheets, new fields of application provided a boost to both foamed and compact products. Business relating to semi-finished products used in aircraft interiors remained dynamic. The core area of business centred around chemical tank and equipment engineering was strengthened further by a new range of products made of fluoroplastics. It, too, generated growth in the period under review, despite the continued lack of major projects in this field.

The product area covering Pipes and Fittings was adversely affected by anaemic infrastructure business, particularly in the second half of the year. The crisis within the energy sector and sustained collapse of crude oil prices proved detrimental to investment behaviour in the district heating and lignite markets. The product groups PE pipes and fittings were unable to isolate themselves from this general market trend. Business was up slightly in the area of industrial pipes and also – supported by projects – with regard to rail drainage systems and pipeline rehabilitation. In total, the area of Pipes and Fittings saw revenue fall by 7.9 per cent to €76.9 million (previous year: €83.4 million).

Orders

Order backlog within the Group amounts to €30.4 million (previous year: €28.0 million); of this figure, €17.9 million (previous year: €17.6 million) was attributable to SIMONA AG.

2.3 Financial performance

Earnings

Benefiting from the positive direction taken by business, Group earnings before interest, taxes and income from investments (EBIT) increased by 12.9 per cent, from €26.7 million to €30.2 million. After 7.4 per cent in 2015, the EBIT margin rose to 8.2 per cent in the period under review.

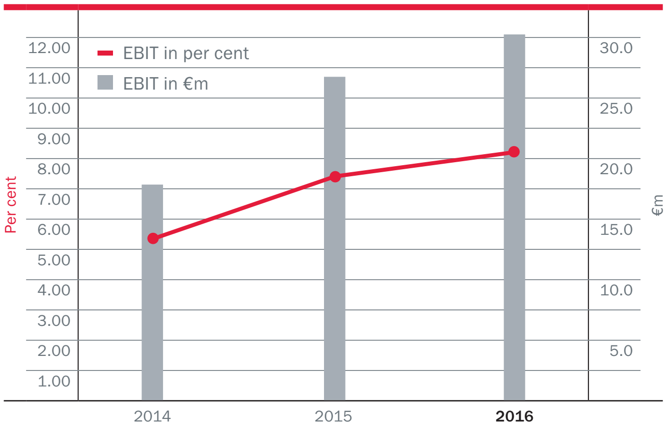
Supported by revenue growth, gross profit (revenue, other income, change in inventories of finished goods and work in progress less cost of materials) rose by €7.5 million to €178.4 million in 2016, which corresponds to 48.7 per cent of revenue (previous year: 47.4 per cent).

In this context, a decrease in inventories of €0.1 million (previous year: increase in inventories of €1.7 million) was accounted for in the income statement.

Other income totalled €8.6 million (previous year: €11.1 million). This figure includes gains of €3.7 million (previous year: €8.3 million) arising from changes in foreign exchange rates. Having accounted for foreign exchange losses recognised in other expenses, the net foreign exchange gain was €1.3 million (previous year: €4.7 million).

The cost of raw materials fell slightly over the course of 2016. The cost of materials was €196.7 million (previous year: €202.2 million); while revenue grew, the cost of materials fell by 2.7 per cent

EBIT PERFORMANCE SIMONA GROUP



year on year. This was attributable primarily to the direction taken by commodity prices and the downturn in business within the area of Pipes and Fittings. Energy-related costs were lower than in the previous year.

Staff costs stood €72.4 million (previous year: €70.8 million), up 2.3 per cent on last year's figure. The year-on-year change was mainly the result of an increase in expenses relating to management and staff bonuses.

Depreciation of property, plant and equipment and amortisation of intangible assets amounted to €13.7 million (previous year: €13.4 million).

Other expenses rose by 3.6 per cent to €62.2 million. The year-on-year increase was due primarily to higher expenses for maintenance, advertising, exhibitions and packaging material. By contrast, expenses attributable to outward freight and foreign currencies were lower in the period under review.

In line with higher pre-tax profit, taxes on income rose from €7.5 million in 2015 to €8.6 million in the reporting period. At 30.6 per cent, the Group tax rate was up slightly on last year's figure of 30.2 per cent.

Segment-specific disclosures

With the exception of the United Kingdom – mainly as a result of currency effects – the individual sales companies within the segment covering Europe made a positive contribution to earnings. In particular, the earnings contributions made by the subsidiaries in Russia and Poland were, in part, substantially higher year on year. Compared with the previous year, the production company in the Czech Republic made a larger contribution to earnings in 2016. Material-related expenses were lower, down from €153.9 million in the previous year to €148.2 million in the period under review, primarily as a result of a decline in revenue from sales in the Pipes and Fittings product area. Staff costs rose by 1.1 per cent to €54.9 million. Other expenses rose by €1.3 million to €42.5 million.

The subsidiaries operating within the Americas segment saw their contributions to earnings expand significantly in the financial year under review. Despite the increase in sales revenue, material-related expenses were scaled back from €42.3 million in the previous year to €41.6 million in the period under review. Staff costs increased by 7.0 per cent to €15.1 million. Other expenses rose by €1.2 million to €16.3 million.

Overall, the sales companies in the segment covering Asia and Pacific saw a downturn in earnings compared to the previous year, despite benefiting from growth in revenue. This was attributable primarily to declining profit margins. The plant in China fell short of the break-even mark in 2016, with earnings before interest and taxes (EBIT) remaining in negative territory. Currency effects proved to be the main factor. EBITDA, by contrast, continued to improve. Staff costs, write-downs and other expenses were comparable to the figure recorded in the previous financial year.

2.4 Financial position

As at 31 December 2016, total assets at Group level were up substantially by €44.6 million to €363.0 million. This was attributable primarily to KfW funding received by the Group.

Changes to assets

As in the previous financial year, intangible assets totalled €33.9 million; they mainly consist of goodwill relating to the entities acquired in the United States.

Property, plant and equipment amounted to €116.7 million (previous year: €113.8 million). The year-on-year change was attributable primarily to the addition of the Technology Centre in Kirn. Investments in property, plant and equipment totalled €15.5 million at Group level. Depreciation and write-downs of property, plant and equipment amounted to €12.3 million.

Deferred tax assets rose from €4.4 million a year ago to €7.6 million in the period under review, primarily due to utilisation of loss carryforwards in respect of the US subsidiaries.

Inventories totalled €69.2 million (previous year: €66.9 million). At €26.2 million, inventories of raw materials, consumables and supplies were unchanged year on year. Finished goods and merchandise rose by €2.5 million to €41.4 million.

At €52.2 million, trade receivables remained largely unchanged year on year.

Current and non-current other assets and tax assets totalled €3.4 million (previous year: €6.3 million). This item includes the entitlement of SIMONA AG, capitalised at its present value, relating to corporation tax credits of €0.8 million (previous year: €1.4 million).

Other financial assets fell to €0.8 million (previous year: €4.0 million), primarily as a result of short-term financial arrangements.

Assets held for sale stood at €3.8 million (previous year: €4.7 million) and are attributable to property, plant and equipment in the United States. The property in France, containing offices and a storage facility, was sold in the period under review.

Changes to equity and liabilities

The Group strengthened its equity further compared to the previous financial year, in addition to seeing an increase in non-current liabilities.

At the end of the financial year, Group equity amounted to €192.0 million (previous year: €182.6 million). This figure primarily includes annual profit of €19.5 million and a dividend payment of €6.0 million in 2016. The revaluation of pension provisions due to the reduction in the IAS actuarial interest rate had an impact on Group equity, equivalent to €5.1 million. The Group's equity ratio fell from 57 per cent to 53 per cent due to the higher balance sheet total.

Current and non-current provisions for pensions had to be revalued mainly in response to the reduction in the IAS actuarial interest rate from 2.30 per cent a year ago to 1.80 per cent. The figure recognised in the period under review was €103.3 million in total (previous year: €91.4 million).

At €15.1 million, trade payables were higher year on year (previous year: €11.7 million) due to factors relating to the end of the reporting period.

Other non-current and current financial liabilities totalling €3.4 million (previous year: €5.6 million) mainly relate to purchase price payments outstanding in connection with corporate acquisitions.

Other liabilities totalled €14.5 million in the period under review (previous year: €13.6 million) and 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 (€2.7 million) and current (€1.6 million) other provisions were slightly lower than in the previous financial year.

Investments

Group capital expenditure on property, plant and equipment amounted to €15.5 million (previous year: €16.0 million). This mainly relates to investments in the segment covering "Europe", the emphasis being on the new Technology Centre at the company's headquarters as well as technical and office equipment at sites in Germany and the United States. Additionally, a logistics facility was built at the company's production site in Asia. In total, net investments in property, plant and equipment amounted to €3.1 million at Group level (previous year: €4.0 million).

2.5 Financial management and cash flows

Principles and aims of financial management

The primary goal of financial management is to safeguard the financial strength of the SIMONA Group. In this context, the most important aspect is to meet the Group's financial requirements relating to its operational business and its investing activities to a sufficient degree. Financial management is centrally organised within the Group. To a large extent, SIMONA covers the liquidity required within the Group by means of internal Group 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 by applying an approach that is optimised in terms of both risk and returns.

Financing analysis

Non-current financial liabilities rose significantly, by €18.3 million to €22.1 million. They were attributable to KfW loans taken out by the company, producing an inflow of funds in the fourth quarter in particular. Current financial liabilities amounted to €3.4 million at the end of the reporting period (previous year: €2.9 million), which were attributable mainly to short-term KfW loans (previous year: €0.4 million).

No derivative financial instruments were recognised as at 31 December 2016.

At the end of the reporting period the Group had undrawn lines of credit totalling €18.9 million (previous year: €42.8 million). The year-on-year reduction was due to KfW funds drawn by the company.

Cash flows

In the period under review the inflow of cash from operating activities (gross cash flow) was €42.2 million (previous year: €37.3 million). Net cash used in investing activities totalled €–11.7 million (previous year: €–22.1 million). Net cash from financing activities was €12.4 million (previous year: net cash used in financing activities of €–5.7 million) and mainly consisted of an inflow of KfW funds and an outflow in connection with dividend payments.

Cash and cash equivalents

The Group's cash and cash equivalents totalling €74.8 million (previous year: €31.9 million) mainly consist of short-term bank deposits. The year-on-year swing of €42.9 million (previous year: €10.6 million) was mainly the result of net cash from operating and financing activities as well as net cash used in investing activities. These changes are presented in detail in the statement of cash flows.

Financial obligations

Current obligations included €15.1 million (previous year: €10.7 million) for contracts already awarded in connection with investment projects and €12.9 million in respect of purchase orders for raw materials. Other financial obligations totalling €2.5 million (previous year: €1.0 million) were attributable to operating rental and lease agreements. Of this total, an amount of €0.6 million is due within one year.

Net finance cost

Based on finance income of €0.2 million and finance cost of €2.4 million, net finance cost amounted to €–2.2 million in the period under review (previous year €–2.0 million).

2.6 Course of business – SIMONA AG

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

Sales revenue totalled €254.5 million in 2016 (previous year: €256.0 million). This corresponds to a slight decline in revenue of 0.6 per cent. Thus, the company fell short of its original revenue target of €263 million. With the Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz – BilRUG) coming into effect, the company recognised, for the first time, revenue of €1.0 million from services (previous year: €0.8 million) in sales revenue for Germany. This item had previously been accounted for in other operating income.

Germany

Sales revenue in Germany fell by 0.7 per cent to €96.7 million (previous year: €97.5 million), primarily as a result of the dip in business within the area of Pipes and Fittings.

Rest of Europe & Africa

At €140.9 million, revenue generated from sales in the region covering the Rest of Europe & Africa was just under the prior-year figure of €141.7 million.

Americas

The region comprising the Americas saw sales revenue decline by 10.4 per cent to €4.2 million in total (previous year: €4.7 million).

Asia and Pacific

Revenue from sales in the Asia and Pacific region grew by 3.7 per cent to €12.6 million.

Sales revenue by product area

In the product area comprising Semi-Finished and Finished Parts sales revenue increased by 2.0 per cent to €179.9 million (previous year: €176.4 million). Revenue from the product area comprising Pipes and Fittings fell by 7.7 per cent, down from €79.7 million to €73.6 million.

SIMONA AG earnings declined year on year. Earnings before interest and taxes (EBIT), calculated on the basis of IFRS, totalled €13.6 million (previous year: €15.2 million), while the EBIT margin stood at 5.2 per cent (previous year: 6.0 per cent). The company achieved its budgeted EBIT margin (4 to 6 per cent). EBITDA, calculated on the basis of IFRS, fell from €23.2 million in the previous year to €21.5 million in 2016. The EBITDA margin stood at 8.5 per cent, compared to 9.1 per cent for the same period a year ago (budgeted EBITDA margin of 7 to 8 per cent). At 9.3 per cent, ROCE (based on IFRS) remained below the prior-year figure of 10.6 per cent but exceeded the ROCE target set by the company (7 to 9 per cent).

The decline in EBIT and EBITDA was attributable primarily to the lower net result from currency translation as well as higher expenses in connection with sales and administration. In total, business performance was satisfactory during the 2016 financial year.

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

Earnings performance

At €105.0 million, gross profit (sales revenue less cost of material) was higher than in the previous year (€101.0 million). Thus, the gross profit margin improved from 39.5 per cent a year ago to 41.3 per cent in the period under review. The cost of material declined in line with lower sales revenue in the area of Pipes and Fittings and as a result of lower energy costs.

Other operating income totalled €3.9 million (previous year: €5.1 million). This figure includes gains of €1.5 million (previous year: €2.3 million) from currency translation.

Staff costs amounted to €46.7 million, thus remaining largely unchanged year on year. This was attributable to higher expenses in connection with staff bonuses as well as lower expenses relating to social security and old-age provision.

Depreciation/write-downs of property, plant and equipment and amortisation/write-downs of intangible assets amounted to €6.6 million (previous year: €6.9 million).

At €39.1 million, other operating expenses were up on last year's figure (€36.5 million). Expenses were higher primarily in the areas of advertising, packaging material and consulting services. By contrast, expenses relating to outward freight were lower.

As in the previous year (€3.1 million), write-ups of €9.2 million in respect of financial assets relate to interests held in SIMONA AMERICA Inc., USA.

Write-downs of €6.2 million (previous year: €5.3 million) relating to financial assets were attributable to loans granted to SIMONA ASIA Ltd., Hong Kong.

Interest and similar expenses were €4.2 million (previous year: €3.4 million) and consisted primarily of expenses relating to the unwinding of the discount, i.e. interest cost, of pension provisions (€3.9 million, previous year: €3.2 million). Due to the adoption of Section 253 of the German Commercial Code (Handelsgesetzbuch – HGB) in the version that transposes the Directive on Credit Agreements for Consumers Relating to Residential Immovable Property and amends statutory requirements under German commercial law, interest expense was down €6.1 million in the reporting period (previous year: €2.9 million). This was due to the fact that the period specified for the purpose of determining the average interest rate used to discount pension obligations was extended from 7 to 10 years.

Earnings before interest and taxes (EBIT), calculated on the basis of the German Commmercial Code (Handelsgesetzbuch – HGB), totalled €18.8 million in the period under review (previous year: €16.9 million), as a result of which the EBIT margin stood at 7.4 per cent (previous year: 6.6 per cent). EBITDA rose from €23.7 million a year ago to €25.5 million at the end of the reporting period. At 10.0 per cent, the EBITDA margin was up on last year's figure of 9.3 per cent. Profit after taxes stood at €15.2 million. Earnings performance in the financial year under review was dominated in particular by a higher gross profit as well as higher other operating expenses.

Assets

Total assets attributable to SIMONA AG rose by €38.1 million to €275.6 million.

At €139.3 million, non-current assets remained unchanged year on year.

Property, plant and equipment increased by €2.8 million to €55.0 million, which was mainly due to the construction of a new Technology Centre in Kirn.

Interests in affiliated companies rose from €46.1 million to €55.6 million. This was attributable primarily to a write-up relating to the investment in the US subsidiary (€9.2 million).

Loans to affiliated companies, amounting to €28.1 million (previous year: €40.1 million), relate to subsidiaries in the Americas and Asia. The subsidiary in the United States repaid loans of €6.3 million in the reporting period. Loans to the subsidiary in Asia were written down by €6.2 million.

In total, inventories increased by €4.2 million to €34.8 million. They include raw materials (€13.0 million), work in progress (€0.4 million) and finished goods (€21.3 million). Inventories of finished goods rose by €2.1 million compared to the previous financial year.

Trade receivables fell to €23.7 million in the period under review (previous year: €24.3 million). At €14.3 million, receivables from affiliated companies – comprising loans and goods deliveries – were down by €3.6 million year on year. This reduction was due primarily to the repayment of loans.

Other assets were down by €1.0 million year on year to €3.0 million.

In total, receivables and other assets stood at €41.4 million at the end of the financial year, down from €46.8 million in the previous year.

Cash and cash equivalents rose from €20.4 million a year ago to €59.5 million at the end of the reporting period, an increase of €39.1 million. The expansion in cash and cash equivalents was attributable mainly to the inflow of KfW funds and to operating activities.

Equity and liabilities

SIMONA AG's equity rose from €162.5 million a year ago to €171.6 million as at the end of the 2016 financial year. Despite this, the equity ratio fell from 68 per cent a year ago to 62 per cent in the period under review. The latter was attributable mainly to the inflow of KfW funds, which prompted an increase in the balance sheet total.

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 totalled €58.7 million (previous year: €54.4 million). In total, allocations to provisions for pensions were increased by €2.8 million compared to the previous year and stood at €46.4 million at the end of the reporting period. The higher allocation is attributable primarily to a reduction in the discount rate to 4.01 per cent (previous year: 4.31 per cent). Other provisions totalled €11.5 million (previous year: €9.7 million).

Total liabilities rose by €24.7 million to €45.2 million in total.

At €7.6 million, trade payables were up €0.3 million on the prior-year figure. Liabilities towards affiliated companies amounted to €9.8 million (previous year: €4.1 million), which relate mainly to goods deliveries from the subsidiary in the Czech Republic.

Bank borrowings totalled €25.6 million (previous year: €6.8 million) and were attributable to long-term KfW loans. At the end of the period under review no funds had been drawn from the short-term global credit facility (previous year: €2.5 million).

The KfW loans are subject to fixed interest rates, with quarterly debt repayments scheduled under the terms of the agreement. The funds are to be 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 rate) 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 €9.3 million in the period under review (previous year: €10.6 million). This mainly relates to investments in technical equipment at the company sites in Germany as well as the construction of a Technology Centre at the company site in Kirn. In total, net investments (additions less write-downs) amounted to €3.0 million (previous year: €4.0 million). With a planned investment volume of around €2.2 million, the new building located at the Ringsheim site is scheduled for completion in 2017.

Obligations from investment projects already initiated amounted to €10.9 million, while those attributable to raw material orders were €8.6 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 €59.5 million (previous year: €20.4 million), comprising bank deposits denominated in euro and foreign currencies. The year-on-year increase is mainly attributable to an inflow of cash from operating activities and financing activities.

2.8 Non-financial indicators

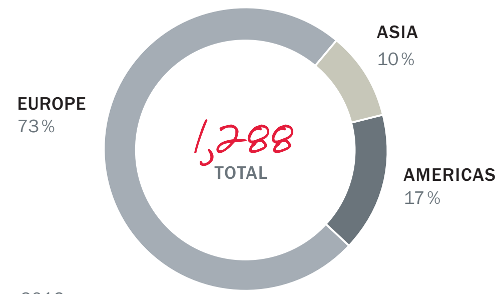
Customer satisfaction
SIMONA measures customer satisfaction as part of pan-European surveys. Additionally, customers and target groups are surveyed in key markets outside of Europe, such as China and the United States. Based on the results of the most recent pan-European survey, SIMONA further improved overall customer satisfaction from 82.4 per cent in 2013 to 86.7 per cent in the period under review. 88.0 per cent of our customers would recommend our products and services to others (comparative figure: 85.4 per cent). The next customer survey for Europe as a whole is to take place in April 2017.

Employees
The SIMONA Group saw a slight increase in its headcount as at the end of the reporting period. As at 31 December 2016, the Group employed 1,288 people (31 Dec. 2015: 1,278). In Germany, the overall number of employees remained largely unchanged. In response to more expansive business, staffing levels in Eastern Europe were increased in the period under review. The headcount in Asia rose following the establishment of a new subsidiary in India. The number of people employed by the Group in the United States was slightly down year on year.

At 789, the number of staff employed at SIMONA AG was largely unchanged when compared to the previous year (31 Dec. 2015: 788).

The headcount of school-leaver trainees rose further, up from the high figure recorded a year ago. In total, 48 (previous year: 42) young people were enrolled in vocational programmes relating to one of eight technical and commercial training courses offered by SIMONA. For the first time, a female school-leaver trainee joined the vocational training programme for Materials Testing in 2016. Twelve young people were enrolled in an integrated/dual work-study degree course supported by SIMONA or sponsored training to become a state-certified technician.

EMPLOYEES BY REGION (SIMONA GROUP)



31 December 2016

Within the area of HR management the focus in 2016 was on personal and professional development, staff satisfaction and projects centred on ergonomics. The emphasis with regard to staff development was on English language courses and the completion of the international Talent Promotion Circle programme for Year 2 candidates. Towards the end of November 2016, SIMONA conducted an extensive staff survey covering all of its sites in Germany. The response rate was solid and revealed a high level of satisfaction in the majority of categories compared to the previous survey and the industry as a whole. As part of the company's occupational health management scheme, the health insurer AOK Rhineland-Palatinate/Saarland and SIMONA agreed a joint programme of "Promoting Health at Work". Additionally, the company coordinated a number of ergonomics projects and organised two Health Days at its Group headquarters in Kirn. SIMONA also made preparations for a qualifications matrix and the introduction of appraisal interviews for industrial staff at Plant II in Kirn. This was implemented at the beginning of 2017.

Quality, environment and energy
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 audits in 2016. 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 systems as well as the exceptionally high quality of our products and processes.

In October, SIMONA's energy management system implemented in accordance with DIN ES ISO 50001 underwent a successful audit at the company sites in Kirn and Ringsheim. This confirmed the efficiency of the system put in place by the company. December 2016 saw the successful completion of an audit at the plant in Litvinov, Czech Republic.

As a company, SIMONA is aware of its responsibilities towards people and the environment. Therefore, sustainability and environmental compatibility are central issues for SIMONA. The SIMONA Environmental Management System is certified in accordance with DIN EN ISO 14001. When it comes to planning new production processes and manufacturing methods, we are fully committed to intensifying environmental protection as an integral element of our operations. 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. Furthermore, SIMONA is a co-initiator and user of the certified quality mark for PVC sheets issued by Industrieverband Halbzeuge und Konsumprodukte aus Kunststoff e. V. (pro-K). Those entitled to use this mark have committed themselves to specific quality standards, in addition to delivering the best possible manufacturing expertise and a premium-quality service.

Information technology

As regards IT infrastructure, the focus in 2016 was on further improving security within the area of information technology. Due to the heightened risk of crypto trojans and other malware, additional security components were installed. A high degree of IT security is achieved with the help of multilevel scans performed by solutions supplied by various vendors and more extensive filter settings. Another focal point was the migration of the company's SAP system to a new system platform. The latest generation of servers and state-of-the-art data storage systems provide the basis for a stable, high-performance ERP system for all SIMONA sites. In the field of IT applications development the emphasis in 2016 was on harmonising operational processes at all production sites within the SIMONA Group. A Manufacturing Execution System (MES) was implemented as a pilot project at the Group headquarters in Kirn.

3. REPORT ON OPPORTUNITIES AND RISKS

According to a study published by Grand View Research, global demand for plastics will expand by 5.3 per cent on average in the coming years, reaching approx. 335 million tons by the year 2020. Demand continues to be driven by the Asia-Pacific region. This is underpinned by more expansive investments in construction and infrastructures throughout Asia as well as growth in private transport. The study points to relatively high levels of market saturation in North America and Europe, where further growth can only be unlocked by means of new technologies and applications. 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 emphasis is on further strengthening SIMONA's capabilities as an innovator, among other things in the field of high-performance plastics. At the same time, new market segments are to be opened up in the area of construction, mobility and agriculture. It is precisely here that SIMONA sees good opportunities to expand revenue with the help of new products and applications, also in view of the more extensive manufacturing possibilities offered by the new Technology Centre. Within the core segment covering the area of "Industry" the aim is for SIMONA to maintain and strengthen its market position in Europe. With this in mind, the company rolled out a product range featuring fully fluorinated plastics, e.g., PFA (perfluoroalkoxy alkane) and FEP (fluorinated ethylene propylene), and introduced a proprietary software program for tank calculation.

SIMONA is confident that it can expand its Industrial Products business in the Americas region. Given the high level of demand associated with infrastructure projects, this also includes the product categories of pipes and fittings. With passenger numbers rising, investment spending on new aircraft looks set to increase. This presents a good business opportunity for Group company Boltaron Inc., which has directed its portfolio of innovative products – with a vast array of designs, colours and surface finishes on offer – at this specific market.

In the Asia-Pacific region, meanwhile, SIMONA will be looking to benefit from more expansive infrastructure investments, having stepped up its sales activities in this region. SIMONA continues to operate within the premium segment of the market in this region, which has been growing in response to greater environmental awareness and stricter legislation. The subsidiary launched in India in 2016 has now established itself and offers a solid opportunity for the Group to tap the burgeoning plastics market in this country.

The opportunities with regard to SIMONA's business have not changed markedly compared to the previous year. The short-term economic determinants have improved slightly worldwide. By contrast, medium-term structural factors, particularly those influencing investment spending within the industrial sector, an area that is of importance to SIMONA's own business, have possibly deteriorated somewhat. In introducing a Business Development structure and launching its Technology Centre, SIMONA has established solid foundations within the Group in order to unlock opportunities in the plastics market even more effectively than in the financial year just ended.

Significant elements of the internal control and management system

Overall responsibility for the internal control system with regard to the financial reporting process and the Group financial reporting process rests with the Management Board. All entities included within the consolidated group have been integrated within this system by means of clearly defined management and reporting structures.

The internal control system, 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. As regards financial management, consolidation of the subsidiaries is performed with the help of a system certified in accordance with IDW PS 880. Data is provided via an SAP interface as well as in a Web/Excel format. Several technical validation tasks are performed as soon as the data is transferred. Machine-based and manual process verifications as well as the two-man rule are considered to be key monitoring procedures when it comes to preparing financial statements. Income statements and statements of financial position prepared on a quarterly basis, in addition to the publication of an interim report for the first half of the financial year, provide a good basis for plausibility checks in respect of the annual financial statements.

Risk report

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

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.

The geopolitical risks remain virulent and have become more pronounced. Within the segment covering Europe the refugee situation and the as yet unresolved financial crisis are dominant factors when it comes to business environment and industry-specific risks. In the segment covering the Americas the price of oil, the direction taken by the US dollar and uncertainty about the future political stance taken by the United States are key determinants affecting the wider business environment. There is a risk of a continued decline in industry investment spending due to one of the above-mentioned factors, which could have an adverse effect on our business. As regards the Asia and Pacific segment, the economic performance of China within the industrial sector 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 – 10.0 million with a probability of occurrence of less than 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, however, currency risk relating to US dollar transactions has now become more pronounced for SIMONA. In the medium term, the probability of occurrence of a dilute or accretive effect on earnings equivalent to €2.0 to 4.0 million is estimated at over 50 per cent. The greatest risk to business performance in 2016 was the subdued state of the economy, particularly in the areas of industrial production and investment spending.

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, the risk exposure relating to voidability of insolvency has increased. 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 low. Interest payable in connection with KfW loans is based on fixed interest rates. The overdraft facility of SIMONA AG, with its floating interest rate calculated on the basis of EONIA (Euro Over-Night Index Average), is not being utilized at present.

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

Risks attributable to procurement and purchasing

These risks relate in particular to the direction taken by commodity prices as well as supply-side disruptions. The prices of raw materials used by the company are mainly determined by the availability of direct input and end products, i.e. they are no longer dependent entirely on the price of oil. There were no significant raw material shortages in 2016 and prices remained relatively stable. Having said that, the price of key additives needed in the production of PVC surged in the period under review and at the end of the year there was growing evidence to suggest that the full range of raw materials would become much more expensive at the beginning of 2017. Thus, we expect to see a further structural upturn in commodity prices over the medium to long term.

Other risks relate to the area of information technology. Information technology risks mainly include the disruption of IT systems, loss of data and attacks on IT systems together with industrial espionage. SIMONA controls these risks by maintaining its own IT department, whose task is to manage, maintain, refine and protect the IT systems on a continual basis. Additionally, the company regularly invests in hardware and software, as well as using virus scanning applications, firewall systems and access control. The probability of occurrence of external attacks on IT systems is considered high.

At the end of the 2016 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.

4. REPORT ON EXPECTED DEVELOPMENTS

Economic conditions

According to the forecast presented by the IMF, the global economy will pick up in 2017 and expand by 3.4 per cent. In the United States, GDP is expected to increase by 2.3 per cent. Growth is likely to be fuelled by lower taxes together with private consumption and more expansive defence spending. Following a protracted recession, Brazil (+0.2 per cent) and Russia (+1.1 per cent) are expected to return to a path of growth. Projections for the eurozone, meanwhile, point to slightly weaker growth of 1.6 per cent. In this context, private consumption will continue to provide the largest impetus. Investment spending is likely to contribute around 0.5 percentage points to growth. In a year that is considered to be of particular political importance, China will again be faced with lower growth of 6.5 per cent, while the financial risks are likely to become more pronounced. The emerging economies within the Asia-Pacific region are likely to maintain their forward momentum, with growth estimated at 6.3 per cent.

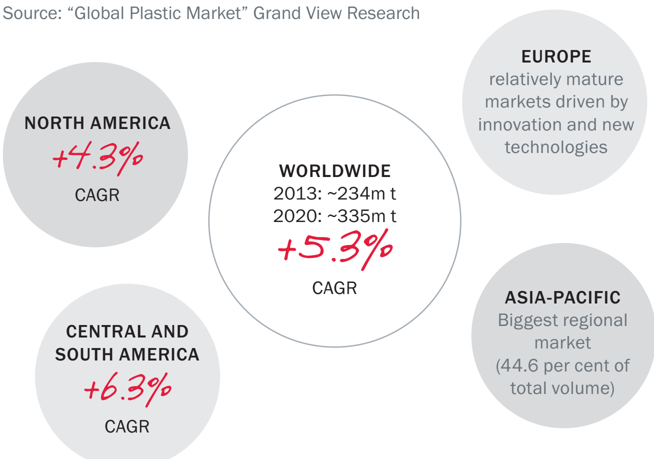
Growth within the majority of the established economies will be driven by private consumption. In terms of growth, global industrial production and investment spending on machinery and equipment will remain relatively subdued. The chemical industry is also unlikely to see any sizeable boost to chemical production in 2017, with Germany's VCI federation forecasting growth of just 0.5 per cent. Excluding pharmaceuticals, the VCI anticipates zero growth for the year ahead. VCI data suggests that revenue within the industry as a whole (excluding pharmaceuticals) will expand by 0.5 per cent. Foreign sales are expected to be the only source of growth within this industry. Germany's mechanical and plant engineering industry is also predicting just a slight upturn in 2017. Production output is expected to grow by 1.0 per cent, fuelled mainly by foreign sales. Hauptverband der Deutschen Bauindustrie, Germany's central federation of the construction industry, has presented an optimistic outlook for 2017 and predicts revenue growth of 5 per cent. The largest contribution to growth is expected to come from the housing sector. The global market for aircraft interiors will continue to expand dynamically in 2017 according to recent forecasts.

Sector-specific conditions

According to data available to the industry federation GKV, Germany's plastics processing companies are confident that sales will expand in 2017. Despite having experienced a record year in 2016 in terms of revenue and employment, 57 per cent of the companies surveyed anticipate growth in turnover for the year ahead. Expectations with regard to earnings performance are also positive on the whole. 38 per cent predict growth in profits, while 45 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.

FORECAST FOR GLOBAL PLASTICS DEMAND UP TO 2020

Source: "Global Plastic Market" Grand View Research



Future performance of the Group

For the 2017 financial year, the SIMONA Group has budgeted consolidated revenue of €381 million, an EBIT margin of between 7 and 8 per cent and an EBITDA margin of 11 to 12 per cent.

At Group level, the return on capital employed (ROCE) in 2017 is expected to be between 10 and 11 per cent.

The United States and Eastern Europe are expected to provide the strongest impetus for revenue growth. In the United States, SIMONA anticipates that its industrial products business will continue on a path of stability, while the aviation market is likely to remain dynamic. In Central and Western Europe, SIMONA will continue to be confronted with intense competition within a market that is consolidating. For this sales region, the goal is to defend the company's position within the core segment, the industrial market, and generate growth through new fields of application such as agriculture, mobility and construction. In Asia, meanwhile, the solid performance recorded in the last two quarters of 2016 is to be used as a launch pad for further growth.

The company's ability to achieve these targets will depend in particular on the capacity to impose viable prices in a market environment that remains highly competitive and the direction taken by commodity markets. In some cases, the prices for raw materials used by SIMONA increased dramatically in February and March 2017. At present our guidance figure for revenue achievable in 2017 stands at €370–380 million, while that for EBIT is €25–30 million. Trends relating to global industrial output and investment spending as well as the direction taken by commodity markets are key determinants as regards the attainment of our goals.

By extending our technical expertise and focusing on new market segments alongside our core market of industrial applications, we believe that customer satisfaction can be maintained at the high levels achieved at present.
Given our efforts in the area of energy management, we anticipate that energy efficiency can be held at the level currently seen.

The employee headcount within the SIMONA Group is likely to remain stable in 2017. Based on the vocational training contracts signed up to now, the number of school-leaver trainees will probably remain unchanged year on year.

Future performance of SIMONA AG

Despite significant uncertainties within the economic and geopolitical domain, SIMONA has set itself some ambitious goals for the future. For the financial year 2017, SIMONA has set a guidance target of €260 million in sales revenue, together with an EBIT margin of between 4 and 6 per cent and an EBITDA margin of between 7 and 9 per cent, each calculated on the basis of IFRS.

The return on capital employed (ROCE) in 2017 is expected to be between 8 and 9 per cent.

The sales region covering Germany is expected to undergo further market consolidation. Our goal for the region encompassing the Rest of Europe and Africa, meanwhile, is to achieve slight growth. Eastern Europe is expected to provide greater impetus for growth. In Europe, SIMONA will continue to pursue growth by introducing new products and moving into new fields of application. The establishment of our Business Development structure should also act as a stimulus. Business in the sales region covering the Americas is to be maintained at the current level. SIMONA will be looking to achieve higher rates of growth in the region of Asia and Pacific.

5. OTHER INFORMATION

5.1 Declaration on corporate governance

The declaration on corporate governance pursuant to Section 289a (1) sentences 2 and 3 of the German Commercial Code (Handelsgesetzbuch – HGB) has been published by SIMONA AG on its corporate website at www.simona.de.

5.2 Compensation report

Management Board compensation

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

Management Board compensation is performance-based. It is comprised of a fixed level of remuneration as well as a variable component. The fixed component of compensation is paid as a salary on a monthly basis. The variable component of compensation is reviewed annually, while the fixed component is assessed once every two years. In addition, both components are subject to thorough analyses in intervals of two to three years, based on a comparison with compensation figures applicable to executive staff of similar enterprises. The variable component of Management Board compensation is based on earnings performance within the Group and a long-term incentive programme. As regards the performance periods 2013–2015 and 2014–2016, 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). In the period under review, a new long-term incentive programme was implemented. 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 with regard to the new method of calculation encompasses the financial years 2015–2017 and the second performance period comprises the financial years 2016–2018. 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	2016	2015
Fixed compensation		
Fixed salary and fringe benefits	906	1,012
Variable compensation		
Annual bonus	1,067	715
Long-term incentive programme (LIP)		
Period 2013–2015, payment 2016	0	335
Period 2014–2016, payment 2017	517	0
Total Management Board compensation	**2,490**	**2,062**

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 €470 thousand (previous year: €486 thousand). Pension provisions for active and former members of the Management Board, as governed by the German Commercial Code, were recognised to the full extent and amounted to €12,890 thousand as at 31 December 2016 (previous year: €11,810 thousand). IFRS-based pension provisions for active and former members of the Management Board were recognised to the full extent and amounted to €18,861 thousand as at 31 December 2016 (previous year: €16,333 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 premiums. Members of the Management Board received neither loans nor share options or 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 10 June 2016 no such resolution for variable compensation components was passed for the 2016 financial year.

Supervisory Board compensation for the financial year under review amounted to €163 thousand (previous year: €131 thousand), of which €139 thousand (previous year: €105 thousand) was attributable to SIMONA AG. Members of the Supervisory Board received neither loans nor share options or other share-based compensation from the company.

5.3 Disclosures pursuant to Section 289(4) and Section 315(4) HGB and explanatory report

As at 31 December 2016, 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 15.0 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 10.9 per cent of shares in the company were in free float.

As at 10 June 2016, members of the Management Board reported a total holding of 70,909 shares; this corresponds to 11.82 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 10 June 2016. This corresponds to 0.22 per cent of SIMONA AG's share capital.

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

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

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

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

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

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, 31 March 2017
SIMONA Aktiengesellschaft
The Management Board

Wolfgang Moyses Dirk Möller Fredy Hiltmann

Contents

FINANCIAL STATEMENTS

BALANCE SHEET
OF SIMONA AG FOR THE FINANCIAL YEAR 2016

ASSETS

in € '000	31/12/2016	31/12/2015
A. NON-CURRENT ASSETS		
I. Intangible assets		
Industrial property rights and similar rights and assets as well as licences in such rights and assets	629	577
	629	**577**
II. Property, plant and equipment		
1. Land, land rights and buildings	17,983	15,562
2. Technical equipment and machinery	23,403	21,812
3. Other equipment, operating and office equipment	6,305	5,486
4. Prepayments and assets under construction	7,295	9,350
	54,986	**52,210**
III. Financial assets		
1. Investments in affiliated companies	55,636	46,142
2. Loans to affiliated companies	28,056	40,075
3. Other long-term equity investments	23	23
	83,715	**86,240**
	139,330	**139,027**
B. CURRENT ASSETS		
I. Inventories		
1. Raw materials, consumables and supplies	13,008	11,158
2. Work in progress	370	275
3. Finished goods and merchandise	21,285	19,208
4. Prepayments for inventories	129	0
	34,792	**30,641**
II. Receivables and other assets		
1. Trade receivables	23,710	24,290
2. Receivables from affiliated companies	14,304	17,861
3. Receivables from other long-term investees and investors	312	571
4. Other current assets	3,049	4,086
	41,375	**46,808**
III. Cash in hand and bank balances	**59,470**	**20,412**
	135,637	**97,861**
C. PREPAID EXPENSES	**592**	**561**
	275,559	**237,449**

EQUITY AND LIABILITIES

in € ’000		31/12/2016	31/12/2015
A.	**EQUITY**		
I.	**Subscribed capital**	**15,500**	**15,500**
II.	**Capital reserve**	**15,032**	**15,032**
III.	**Revenue reserves**		
	1. Legal reserve	397	397
	2. Statutory reserves	2,847	2,847
	3. Other revenue reserves	124,223	116,677
IV.	**Unappropriated surplus**	**13,591**	**12,044**
		171,590	**162,497**
B.	**PROVISIONS**		
	1. Provisions for pensions	46,360	43,539
	2. Provisions for taxes	855	1,199
	3. Other provisions	11,510	9,656
		58,725	**54,394**
C.	**LIABILITIES**		
	1. Liabilities to banks	25,555	6,787
	2. Trade payables	7,649	7,260
	3. Liabilities to affiliated companies	9,849	4,070
	4. Other liabililities (of which taxes €277 thosuand: prev. year: €268 thousand) (of which relating to social security €680 thousand; prev. year: €731 thousand)	2,191	2,441
		45,244	**20,558**
		275,559	**237,449**

INCOME STATEMENT
OF SIMONA AG FOR THE FINANCIAL YEAR 2016

in € '000	01/01/–31/12/2016	01/01/–31/12/2015
1. Revenue	254,513	256,036
2. Increase in finished goods and work in progress	2,354	614
	256,867	**256,650**
3. Other operating income (of which from currency translation €1,505 thousand; previous year: €2,268 thousand)	3,908	5,096
4. Cost of materials		
a) Cost of raw materials, consumables and supplies and of purchased merchandise	–148,583	–154,321
b) Cost of services purchased	–939	–703
	–149,522	**–155,024**
5. Staff costs		
a) Wages and salaries	–38,379	–36,974
b) Social security, post-employment and other employee benefit costs (of which in respect of old-age pensions €1,543 thousand; previous year: €2,358 thousand)	–8,332	–9,551
	–46,711	**–46,525**
6. Depreciation, amortisation and write-downs of property, plant and equipment as well as intangible assets	–6,602	–6,866
7. Other operating expenses (of which from currency translation €484 thousand; previous year: €623 thousand)	–39,092	–36,479
8. Income from equity investments (of which from affiliated companies €1,555 thousand; previous year: €1,478 thousand)	1,555	1,478
9. Write-ups of financial assets	9,244	3,156
10. Other interest and similar income (of which from affiliated companies €700 thousand; previous year: €635 thousand)	867	758
11. Write-downs of financial assets	–6,210	–5,341
12. Interest and similar expenses (of which from discounting €3,983 thousand; previous year: €3,306 thousand)	–4,239	–3,404
13. Taxes on income	–4,831	–4,369
14. Result after taxes	**15,234**	**9,130**
15. Other taxes	–141	–137
16. Profit for the year	**15,093**	**8,993**
17. Unappropriated retained earnings brought forward	6,044	7,547
18. Allocation to revenue reserves	–7,546	–4,496
19. Unappropriated surplus	**13,591**	**12,044**

NOTES
OF SIMONA AG FOR THE FINANCIAL YEAR 2016

GENERAL INFORMATION

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

As at the end of the reporting period on 31 December 2016, SIMONA AG was categorised as a large corporation within the meaning of Section 267 of the German Commercial Code (Handelsgesetzbuch – HGB). The company's financial year corresponds to the calendar year.

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

The income statement has been prepared on the basis of the nature of expense method. For the purpose of clarity, the item "write-ups of financial assets", i.e. reversals of write-downs, was incorporated within the classification under Section 275 HGB.

In the period under review the following changes to prior-year presentation and accounting policies were made:

As a result of the Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz – BilRUG), the items "extraordinary income" and "extraordinary expenses" generally presented in the income statement have been deleted. The same applies to the subtotals "result from ordinary activities" and "extraordinary result" previously found in income statements of German companies. Another change to the general classification of the income statement is the insertion of a subtotal "result after taxes" between the items referred to as "taxes on income" and "other taxes".

Based on the general income statement classification amended by the Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz – BilRUG), the subtotal "result after taxes" for the previous financial year amounted to €9,130 thousand.

The prior-year figures relating to sales revenue are not comparable due to the version of Section 277(1) of the German Commercial Code (Handelsgesetzbuch – HGB) amended by the Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz – BilRUG) (referred to as "HGB amended"), as prior-year sales revenue was not adapted. Applying Section 277(1) HGB amended, sales revenue for the previous financial year would have totalled €256,804 thousand.

Due to the redefinition of sales revenue, the composition of "other operating income" has also changed.

in € '000	**2015**	**2015** (after BilRUG)	**Change**
Revenue	256,036	256,804	768
Other operating income	5,096	4,328	–768

Accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

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

Subscribed capital is carried at its nominal value.

The provisions for pensions and similar obligations are determined in accordance with actuarial principles by applying the projected unit credit method on the basis of “Richttafeln 2005 G” (actuarial mortality assumptions) published by Prof. Dr. Klaus Heubeck. With regard to the discount rate, as in the previous year the average market rate for the past ten years (with a remaining term of fifteen years), amounting to 4.01 per cent (previous year: 4.31 per cent), was applied. Expected increases in salaries were accounted for with an interest rate of 2.50 per cent, while the trend in respect of the contribution assessment ceiling for social insurance was accounted for with an interest rate of 2.00 per cent and expected pension increases with 1.87 per cent. Due to its minor significance, no staff turnover, i.e. fluctuation, rate was applied.

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

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

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

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

Currency translation

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

NOTES TO BALANCE SHEET

Non-current assets

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

Details of shareholdings

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

Information pertaining to equity and earnings has been taken from the data used in connection with the consolidated IFRS financial statements as at 31 December 2016 (so-called Handelsbilanz II, i.e. single-entity financial statements adjusted/restated for uniform group accounting policies). Entities' foreign-currency equity is translated at the closing rate, while entities' foreign-currency earnings are translated at the average rate of the financial year.

Loans to affiliated companies

This item includes loans to SIMONA AMERICA Inc. (€16,998 thousand) and SIMONA ASIA Ltd. (€11,058 thousand). An impairment loss, i.e. write-down to the lower fair value, of €6,210 thousand was recognised in respect of loans to SIMONA ASIA Ltd., as the impairment was likely to be permanent.

Inventories

Inventories of raw materials and finished goods are measured on the basis of the LIFO method. The LIFO measurement of inventories entails the classification of inventories into appropriate groups, which are then valued at the lower of cost and net realisable value. The difference arising from the application of this method compared with the average cost method, leading to a reduction in inventories, was €2,275 thousand in the case of raw materials and €7,651 thousand with regard to finished goods.

Receivables and other assets

Essentially, as was the case in the previous year, all receivables and other assets, with the exception of those receivables and other assets described below, have maturities of under one year. The receivables from affiliated companies relate to trade receivables (€13,720 thousand, previous year: €13,058 thousand) as well as loans (€584 thousand, previous year: €4,803 thousand). The total amount of loans with a remaining term of more than one year was €260 thousand (previous year: €4,577 thousand).

The receivables from other long-term investees and investors, amounting to €322 thousand, are attributable to payments made within the context of post-employment benefits.

The company recognised as an asset its entitlement to the payment of the corporation tax credit (€718 thousand) and reported this item under other assets. The remaining instalment falls due in 2017. Additionally, other assets primarily include sales tax receivables amounting to €916 thousand as well as receivables in respect of energy tax totalling €672 thousand.

The total amount attributable to other assets with a remaining term of more than one year was €0 thousand (previous year: €691 thousand).

Equity

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

The unappropriated surplus ("Bilanzgewinn", i.e. the distributable profit) includes €6,044 thousand in unappropriated retained earnings brought forward. In the financial year under review, a total of €7,546 thousand was allocated to other revenue reserves as prescribed by the Articles of Association. In addition, please refer to the proposed appropriation of profits.

Provisions for pensions and similar obligations

The difference between the pension provisions recognised by the company and provisions calculated on the basis of an average interest rate for the last seven annual periods is €-6,068 thousand (previous year: €–2,901 thousand).

SIMONA Sozialwerk GmbH operates as a pension fund, governed by German law, for the purpose of funding the indirect pension obligations for SIMONA AG. As at 31 December 2016, the company recorded a deficit of €8,039 thousand (ten-year interest rate) and €15,655 thousand (seven-year interest rate); this deficit does not necessitate mandatory recognition as a liability.

Other provisions
Other provisions were recognised primarily in respect of personnel-related provisions of €6,851 thousand (previous year: €6,071 thousand) and warranty obligations of €3,515 thousand (previous year: €2,844 thousand).

Liabilities
Bank borrowings include loans from banks totalling €8,335 thousand (previous year: €1,726 thousand) with a remaining term of more than five years as well as bank overdrafts of €0 thousand (previous year: €2,538 thousand) due within one year.

Liabilities to affiliated companies relate to trade payables due within one year (€7,594 thousand, previous year: €4,070 thousand), as well as loans totalling €2,000 thousand.

All liabilities are unsecured.

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

Contingencies
In respect of warranty agreements, SIMONA AG, Kirn, issued one guarantee each in respect of its subsidiaries SIMONA FAR EAST Ltd., Hong Kong, China, and SIMONA ASIA Ltd., Hong Kong, China. At 31 December 2016, they amounted to €0 in total.

As collateral for third-party liabilities, SIMONA AG, Kirn, issued a payment guarantee covering a nominal amount of €2,846 thousand for the purpose of securing commodity deliveries. Trade payables of SIMONA AMERICA Inc. and Boltaron Inc. amounted to €115 thousand in total as at 31 December 2016.

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

NOTES TO INCOME STATEMENT

Revenue
The prior-year figures relating to sales revenue are not comparable with the reporting year due to the version of Section 277(1) of the German Commercial Code (Handelsgesetzbuch – HGB) amended by the Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz – BilRUG) (referred to as “HGB amended”), as prior-year sales revenue was not adapted. Applying Section 277(1) HGB amended, sales revenue for the previous financial year would have totalled €256,804 thousand.

As from the 2016 financial year, the following revenues – recognised in other operating income in previous years – were accounted for in sales revenue: agency commissions in respect of subsidiaries, Group allocations for accounting and IT services provided for subsidiaries as well as rental income.

REVENUE BY REGION

in € ’000	**2016**	**%**	**2015**	**%**
Germany	96,726	38.0	97,447	38.1
Rest of Europe and Africa	140,933	55.4	141,704	55.3
Americas	4,206	1.6	4,692	1.8
Asia and Pacific	12,648	5.0	12,193	4.8
	254,513	**100.0**	**256,036**	**100.0**

REVENUE BY PRODUCT AREA

in € ’000	**2016**	**%**	**2015**	**%**
Semi-finished and finished parts	179,965	70.7	176,350	68.9
Pipes and fittings	73,565	28.9	79,686	31.1
Service and rental	983	0.4	–	–
	254,513	**100.0**	**256,036**	**100.0**

Other operating income
Other operating income includes income not attributable to the accounting period in connection with electricity tax refunds (€1,325 thousand), other income not attributable to the accounting period (€20 thousand; previous year: €4 thousand) and the reversal of provisions (€373 thousand; previous year: €1,379 thousand).

Other operating expenses
Other operating expenses relate primarily to outward freight charges (€9,416 thousand; previous year: €9,814 thousand),

maintenance expenses (€7,731 thousand; previous year: €7,709 thousand), expenses for packaging material (€6,227 thousand; previous year: €5,726 thousand), legal and consulting costs (€1,751 thousand; previous year: €1,318 thousand), cost of premises (€962 thousand; previous year: €912 thousand) and advertising costs (€1,631 thousand; previous year: €635 thousand). Expenses not attributable to the accounting period relate to the derecognition of receivables (€77 thousand; previous year: €104 thousand).

Taxes on income

Income taxes are attributable to the result before taxes in the financial year under review. Taxes on income include tax income of €5 thousand (previous year: €6 thousand) that relates to previous financial years.

OTHER INFORMATION

Other financial commitments

COMMITMENTS FROM RENTAL AND LEASE AGREEMENTS

in € '000	
Due 2017	23
Due after 2017	0
	23

ORDER COMMITMENTS

in € '000	
Investment orders	10,886
Raw material orders	8,603
	19,489

Related-party transactions

Dr. Roland Reber, member of the Supervisory Board of SIMONA AG, is also the Managing Director of Ensinger GmbH, Nufringen. In the financial year under review, product sales amounting to €1,864 thousand (previous year: €1,867 thousand) were transacted between SIMONA AG and the entities of the Ensinger Group. The two entities maintain business relations with each other on arm's length terms.

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

Governing bodies and compensation

Management Board:

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

Responsible for the areas:

- USA and Asia-Pacific
- Global Business Segments
- Strategic Business Development
- HR & Legal

- Investor Relations
- Marketing & Communication

Dirk Möller, Kirn, Diplom-Ingenieur
(Deputy Chairman)
Responsible for the areas:
- Semi-Finished Parts Division Europe
- Pipes and Fittings Division
- Research and Development
- Applications Technology/Technical Service Centre
- Process Development
- Logistics

Fredy Hiltmann, Kirn, Betriebsökonom
Responsible for the areas:
- Finance
- Controlling
- Taxes
- Purchasing
- IT & Organisation
- Quality Management

Wolfgang Moyses performs executive or controlling duties in the following entities:
- Customer Advisory Board member Landesbank Rheinland-Pfalz
- Advisory Board of CW Brabender Instruments Inc., South Hackensack/USA
- Supervisory Board member of SURTECO SE, Buttenwiesen-Pfaffenhofen

Dirk Möller is a shareholder (11.64 per cent of shares in SIMONA AG) and a member of the Management Board of SIMONA AG. In parallel, Dirk Möller performs the following executive duties at individual companies within the SIMONA Group.
- SIMONA Plast-Technik s.r.o., Litvinov, (1)
- SIMONA AMERICA Inc., Hazleton, (2)
- SIMONA FAR EAST Ltd., Hong Kong, (2)
- SIMONA ENGINEERING PLASTICS TRADING Co. Ltd., Shanghai, (2)
- SIMONA ASIA Ltd., Hong Kong, (2)
- SIMONA ENGINEERING PLASTICS (Guangdong) Co. Ltd., Jiangmen, (2)

His executive duties are as follows:
(1) Managing Director, (2) Member of the Board of Directors

Supervisory Board:

Dr. Rolf Goessler, Bad Dürkheim, Diplom-Kaufmann
(Chairman)
Other supervisory board mandates:
- Member of the Supervisory Board of J. Engelsmann AG, Ludwigshafen

Roland Frobel, Isernhagen, Managing Director of ROSSMANN CENTRAL EUROPE B.V., Renswoude, Netherlands
(Deputy Chairman)
Other supervisory board mandates:
- Member of the Supervisory Board of Deutsche Beteiligungs AG, Frankfurt am Main (until 25 February 2016)
- Chairman of the Advisory Board of Saxonia Holding-Gesellschaft mbH & Co.KG, Wolfsburg
- Member of the Supervisory Board of GBK Beteiligungen AG, Hannover
- Member of the Supervisory Board of Hannover 96 GmbH & Co. KGaA, Hannover

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

Joachim Trapp, Biberach, Qualified Lawyer
- Member of the Management Board of Kreissparkasse Biberach, Biberach
- Managing Director of SparkasseImmobilien BC GmbH, Biberach
- Managing Director of SparkasseImmobilien BC Grundstücksverwaltungsgesellschaft mbH, Biberach

Gerhard Flohr, Bergen, (Employee Representative), Maintenance Engineer/Fitter
(until 28 February 2017)

Jörg Hoseus, Monzingen, (Employee Representative), Industrial Mechanic
(until 28 February 2017)

Andy Hohlreiter, Becherbach, Employee Representative),
Industrial Mechanic
(Head of Works Council)
(from 1 March 2017)

Markus Stein, Mittelreidenbach,
(Employee Representative), Office Administration
(Deputy Head of Works Council)
(from 1 March 2017)

Total Management Board compensation

Total Management Board compensation for the 2016 financial year amounted to €2,490 thousand, of which €1,584 thousand was attributable to variable components.

Beyond that, no other compensation or loans were granted.

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

Total Supervisory Board compensation

Supervisory Board compensation comprises remuneration in respect of supervisory board duties (€97.5 thousand) and remuneration for committee work performed by Supervisory Board members (€42 thousand). Total Supervisory Board compensation amounted to €139.5 thousand in the financial year under review, itemised as follows:

in € '000	**2016**
Dr. Rolf Goessler	40.0
Roland Frobel	33.5
Dr. Roland Reber	27.0
Joachim Trapp	13.0
Gerhard Flohr	13.0
Jörg Hoseus	13.0
	139.5

Compensation and pension provisions for former members of the Management Board

Compensation relating to former members of the Management Board amounted to €470 thousand.

Full allocations have been made to pension provisions for former members of the Management Board. At 31 December 2016, these amounted to €6,260 thousand.

Employees

Average number of employees in the financial year:

	2016	**2015**
Industrial staff	465	469
Clerical staff	274	275
Employees	**739**	**744**
School-leavers (apprentices)	46	40
	785	**784**

Appropriation of profits

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

in € '000	**2016**
Profit for the year	15,093
Unappropriated retained earnings brought forward	6,044
Appropriation to other revenue reserves in accordance with the Articles of Association	–7,546
Unappropriated surplus	**13,591**
Dividend (€12.00 per share)	–7,200
Carried forward to new account	**6,391**

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

In accordance with Section 161 AktG, the company filed a Declaration of Conformity for 2016 on 23 February 2017. It has been made permanently available and publicly accessible to shareholders on its corporate website at www.simona.de.

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

On 10 June 2016, the company disclosed in accordance with Section 26(1) of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG) that it had received notification of the following interests held in the company. The ownership interests are outlined below:

VOTING POWER IN RESPECT OF SIMONA AG

in %	as at 31/12/2016
Dr. Wolfgang und Anita Bürkle Stiftung, Kirn	31.19
Kreissparkasse Biberach, Biberach	15.04
Dirk Möller, Kirn	11.64
Regine Tegtmeyer, Nebel	11.25
Rossmann Beteiligungs GmbH, Burgwedel	10.10
SIMONA Vermögensverwaltungsgesellschaft der Belegschaft mbH, Kirn	10.00

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

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

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

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

Group relationship

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

Audit fees

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

Events after the reporting period

There were no events of material significance in the period between the end of the 2016 financial year and the preparation of this report.

Responsibility Statement

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

Kirn, 31 March 2017
SIMONA Aktiengesellschaft
The Management Board

Wolfgang Moyses   Dirk Möller   Fredy Hiltmann

STATEMENT OF CHANGES IN FIXED ASSETS
OF SIMONA AG FOR THE FINANCIAL YEAR 2016

	COST OF PURCHASE					ACCUMULUTATED DEPRECIATION/ AMORTISATION/WRITE-DOWNS					NET CARRYING AMOUNTS	
in € ’000	**01/01/ 2016**	Additions	Reclassifications	Disposals	**31/12/ 2016**	**01/01/ 2016**	Additions	Write-ups	Disposals	**31/12/ 2016**	**31/12/ 2016**	**31/12/ 2015**
I. Intangible assets												
Industrial property rights and similar rights and assets as well as licences in such rights and assets	7,873	296	43	542	7,670	7,296	286	0	541	7,041	629	577
	7,873	**296**	**43**	**542**	**7,670**	**7,296**	**286**	**0**	**541**	**7,041**	**629**	**577**
II. Property, plant and equipment												
1. Land, land rights and buildings	53,065	1,579	1,971	24	56,591	37,503	1,127	0	22	38,608	17,983	15,562
2. Technical equipment and machinery	146,205	1,806	3,613	5,417	146,207	124,393	3,824	0	5,413	122,804	23,403	21,812
3. Other equipment, operating and office equipment	50,806	1,885	491	4,613	48,569	45,320	1,365	0	4,421	42,264	6,305	5,486
4. Prepayments and assets under construction	9,350	4,063	-6,118	0	7,295	0	0	0	0	0	7,295	9,350
	259,426	**9,333**	**-43**	**10,054**	**258,662**	**207,216**	**6,316**	**0**	**9,856**	**203,676**	**54,986**	**52,210**
III. Financial assets												
1. Investments in affiliated companies	60,727	250	0	0	60,977	14,585	0	9,244	0	5,341	55,636	46,142
2. Loans to affiliated companies	40,075	445	0	6,254	34,266	0	6,210	0	0	6,210	28,056	40,075
3. Other long-term equity investments	23	0	0	0	23	0	0	0	0	0	23	23
	100,825	**695**	**0**	**6,254**	**95,266**	**14,585**	**6,210**	**9,244**	**0**	**11,551**	**83,715**	**86,240**
I + II + III	**368,124**	**10,324**	**0**	**16,850**	**361,598**	**229,097**	**12,812**	**9,244**	**10,397**	**222,268**	**139,330**	**139,027**

DETAILS OF SHAREHOLDINGS
OF SIMONA AG FOR THE FINANCIAL YEAR 2016

Company	Ownership interest	Equity	Profit/loss of last financial year
	%	in € ’000	in € ’000
Indirectly			
SIMONA IBERICA SEMIELABORADOS S.L., Barcelona, Spain	100.0	357	71
SIMONA S.A.S., Domont, France	100.0	4,017	958
SIMONA S.r.l. Società UNIPERSONALE, Cologno Monzese (MI), Italy	100.0	314	144
SIMONA UK Ltd., Stafford, United Kingdom	100.0	2,148	–14
64 NORTH CONAHAN DRIVE HOLDING, LLC, Hazleton, USA	100.0	3,106	–337
Laminations Inc., Archbald, USA	100.0	15,992	781
Boltaron Inc., Newcomerstown, USA	100.0	19,729	9,685
DANOH, LLC, Akron, USA	100.0	202	159
CARTIERWILSON, LLC, Marietta, USA*	25.0	352	685
SIMONA ENGINEERING PLASTICS TRADING Co. Ltd., Shanghai, China	100.0	743	–334
SIMONA ENGINEERING PLASTICS (Guangdong) Co. Ltd., Jiangmen, China	100.0	4,333	–1,221
SIMONA INDIA PRIVATE LIMITED, Mumbai, India	0.01	251	–13
Directly			
SIMONA Beteiligungs-GmbH, Kirn **	100.0	1,834	0
SIMONA Sozialwerk GmbH, Kirn ***	50.0	12,413	–32
SIMONA Vermögensverwaltungsgesellschaft der Belegschaft mbH, Kirn ***	50.0	3,349	362
SIMONA Plast-Technik s.r.o., Litvinov, Czech Republic	100.0	20,495	1,174
SIMONA-PLASTICS CZ, s.r.o., Prague, Czech Republic	100.0	105	–5
SIMONA POLSKA Sp. z o.o., Wrocław, Poland	100.0	1,082	164
DEHOPLAST POLSKA Sp. z o.o., Kwidzyn, Poland	51.0	575	100
OOO SIMONA RUS, Moscow, Russian Federation	100.0	-28	210
SIMONA AMERICA Inc., Hazleton, USA	100.0	34,886	–329
SIMONA ASIA Ltd., Hong Kong, China	100.0	4,306	106
SIMONA FAR EAST Ltd., Hong Kong, China	100.0	958	31
SIMONA INDIA PRIVATE LIMITED, Mumbai, India	99.99	251	–13

* Preliminary financial results
** Control and profit transfer agreement with SIMONA AG
*** Financial year 2015

REPRODUCTION OF THE AUDITOR'S REPORT

"We have audited the annual financial statements – comprising the balance sheet, income statement and notes to the financial statements – in conjunction with the accounting records and management report of SIMONA Aktiengesellschaft, Kirn, which has been combined with the Group management report, for the financial year from 1 January to 31 December 2016. The Management Board of the Company is responsible for the accounting records and for preparing the financial statements and combined management report in accordance with applicable German commercial law as well as supplementary requirements set out in the articles of association. Our responsibility is to express an opinion on the financial statements – having referred to the accounting records – and the combined management report based on our audit.

We conducted our audit of the financial statements in accordance with Section 317 of the German Commercial Code and in compliance with generally accepted German auditing standards promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. An audit includes assessing, on a test basis, the efficacy of the accounting-related internal control system, as well as examining evidence supporting the amounts and disclosures in the accounting records, annual financial statements and combined management report. The audit also includes assessing the accounting principles applied and significant estimates made by the Management Board, as well as evaluating the overall adequacy of the presentation of the financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of association and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The combined management report is consistent with the annual financial statements, complies with statutory regulations, as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development."

Frankfurt am Main, 5 April 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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

This is a translation from German to English. Only the German document shall be considered authoritative.

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