2017

ANNUAL REPORT

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KEY PERFORMANCE INDICATORS

	2017 € '000	2016 € '000	2015 € '000	2014 € '000	2013 € '000
Sales	**86,338**	80,306	81,924	77,441	79,410
Change in %	**7.5**	-2.0	5.8	-2.5	-8.4
EBIT	**6,237**	5,016	5,627	4,612	1,353
EBIT margin in %	**7.2**	6.2	6.9	6.0	1.7
EBT	**2,891**	4,705	6,499	5,022	-248
Operating cash flow	**10,148**	5,903	6,155	5,513	1,377
Equity ratio in %	**44.7**	50.7	49.2	46.9	43.1
Return on equity in %	**5.4**	9.2	10.3	7.9	-0.4
Net debt	**20,150**	23,446	23,563	24,918	25,761
Net debt / EBITDA ratio	**1.94**	2.57	2.41	2.93	5.02
Working capital in %	**35.6**	40.4	38.2	37.2	34.6
ROCE in %	**8.8**	6.3	5.1	11.0	2.0
WACC in %	**7.2**	6.0	7.5	8.1	6.9
Investments in property, plant and equipment	**5,788**	5,629	3,799	2,805	1,388
Depreciation, amortization and write-downs	**4,157**	4,124	4,159	3,905	3,779
Number of employees on an annual average	**536**	542	551	549	611
Number of consolidated companies	**10**	10	9	11	11

ANNUAL REPORT 2017

RATH GROUP

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2017

RATH
LOOKS BACK AT AN
EXTREMELY
SUCCESSFUL FISCAL YEAR 2017

FOREWORD BY THE EXECUTIVE BOARD

DEAR LADIES AND GENTLEMEN

In the past fiscal year, the RATH Group exceeded expectations and outperformed targets. The Group increased consolidated revenue by around 8% and reached the EBIT margin target of 7%. We were also able to markedly improve our other key performance indicators. Operating cash flow was up, working capital was down, and net debt shrank.

One notable milestone in 2017 was the shift by the Group to structured financing in the form of borrower's note loans. We will leverage the advantage we gain to strengthen our Group for the long term with acquisitions as well as through organic growth generated by new product groups. In this regard, we have turned our focus to Europe and the United States to strategically grow our product portfolio and additionally expand in these markets by acquiring companies.

We had a good start to 2018, and all economic data, both domestic and international, is trending positive. Steady revenue and earnings growth is therefore expected again in fiscal year 2018. For this reason, we continue to stand by our decision to distribute dividends. The Executive Board will propose distribution of dividend amounting to €0.75 per no-par value share to the Annual General Meeting on May 28, 2018, (previous year: €0.75 per no-par value share).

The RATH Group is a profitable group of companies that is well positioned for the future. We pursue a fundamentally stable, efficient business model oriented

FOREWORD BY THE EXECUTIVE BOARD

Andreas Pfneiszl (CFO, CSO), Jörg Sitzenfrey (COO, CTO)

toward sustainability that delivers competitive solutions. The digitalization of our business is continuing, and we are working every day to develop and implement fast and efficient solutions for our valued business partners now and in the future.

In closing, we would like to thank all of our employees for whom the past year was undoubtedly exciting and challenging. Their motivation and commitment to the RATH Group certainly did not suffer as a result: quite the contrary, as our key figures indicate.

The Executive Board

Andreas Pfneiszl

Jörg Sitzenfrey

SETTING THE DIRECTION

The RATH Group's management team is responsible for setting the Company's direction. They are all familiar with the overall picture and contribute individually toward reaching our goals.

From left to right: Robert Nusszer, Michael Reisner, Christian Kazmirowski, Werner Koberg, Andreas Pfneiszl, Karsten Zolldann, Doris Schneeberger, Vera Finke, Jörg Sitzenfrey, Thomas Binder-Krieglstein, Manfred Tauchner, Richard Jäger, Manfred Salinger, Christine Wittmann, Alexander Jüttner, Edeltraud Pöltl, Klemens Anderl, Werner Marcov

Whether we are talking about members of the Executive Board or management, or the development, production, sales, marketing, HR, QM, accounting, purchasing, IT, or process management departments, each of these teams gives 100%, and clearly and conscientiously makes the decisions necessary for the RATH Group to prosper.

Coordinating these teams is very important. Like gears, the projects and decisions they are involved in are intermeshed and affect all other areas. This is why individual managers continually exchange information to ensure they are on the same page.

At RATH, taking responsibility means making decisions for the future with vision to ensure the success of the Company, maybe not immediately, but in the long run.

Richard Jäger, Jörg Sitzenfrey
Management Austria

Michael Reisner
Management USA

Robert Nusszer, Werner Marcov
Management Hungary

GROWING THE BUSINESS

Vera Finke, Alexander Jüttner
Management Germany

The RATH Group's general managers keep us on course despite often challenging circumstances so that ultimately we can successfully achieve our common goals.

Along with our staff, they work on building and optimizing the organizations, managing production and the associated procurement processes and material flows. They doggedly pursue the sales targets we have set and motivate their teams and employees to give that little bit more than the competition.

Our general managers are aware of their social responsibility and keep an eye on our employees' workspaces and working conditions. RATH is often an important and popular employer in particular regions, especially where our production facilities are located.

At RATH, managing our business means acting as an entrepreneur within the Company and taking our Company to the top with personal commitment, responsibility, and passion. When we do that, everyone benefits.

MOTIVATING AND SUPPORTING

The managers in the core functions at the RATH Group work in two different worlds: management and providing services. Their mission is always to optimally support local operations and provide impetus for the Group's future development.

Klemens Anderl
Group Purchasing

Karsten Zolldann, Vera Finke
Research & Development

Thomas Binder-Krieglstein
Group Marketing

Edeltraud Pöltl
Accounting

Christine Wittmann
Human Resources

Werner Koberg
IT & SAP

Doris Schneeberger
Process Management

The support provided by the R&D, IT, HR, marketing and accounting departments in the form of processes and standards smooths the path to success for the local departments in the individual companies.

With the help of our general managers, department heads, and employees, ideas and processes are developed to benefit everyone, and to further improve and enhance the Company.

The framework within which we work makes it easier for us to reach our goal. The core functions set up this framework, ensuring that services can be consolidated and synergy effects can be leveraged.

Manfred Salinger
Management Filtration

Christian Imhof
Field Distribution

Christian Kazmirowski
Management Czech Republic

Ricardo Monski
Internal Distribution

Daniela Esper
Internal Sales

MANUFACTURING PRODUCTS AND SELLING ADDED VALUE

The RATH Group's production, technology, and sales teams make sure we have satisfied customers, and the right products of the quality required are in the right place at the right time.

Production, technology, and sales are inseparable. An experienced team of field sales staff, technicians, and production employees ensures that our customers receive the best solutions for their refractory needs.

Long-term collaboration is the key in serving existing and attracting new customers. Every day, we aim to prove that our customers are receiving true added value when they choose to do business with RATH.

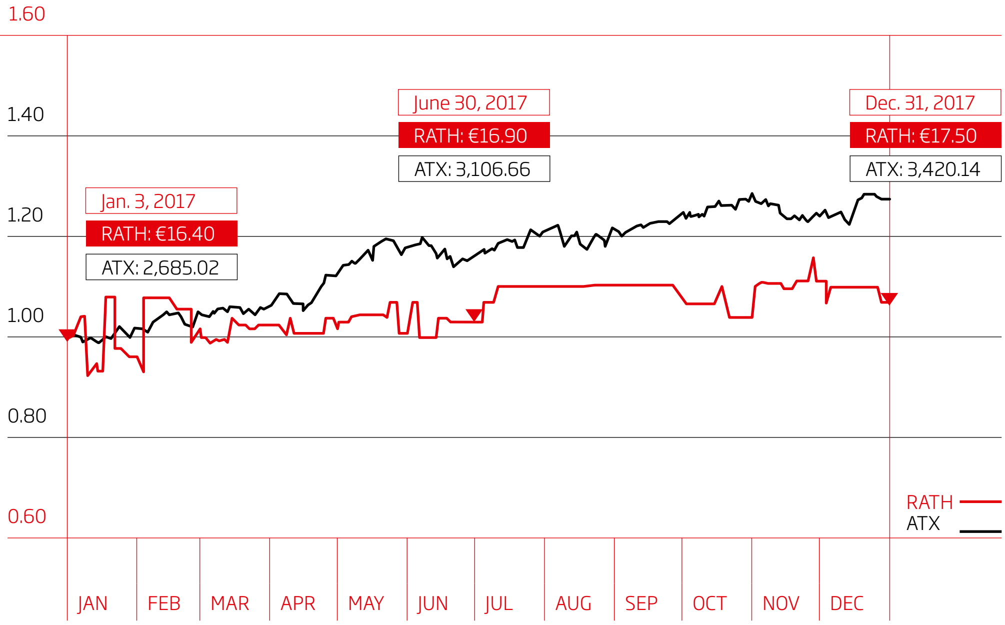
At RATH, we are known for the quality of our products, but also for the fact that our word counts, and we keep our promises. Safety and reliability are important to RATH's customers. We know that, so we make every effort to always be available for our customers and to offer them fast, streamlined solutions: human added value, you could say.






RATH SHARES

› SHARE PRICE PERFORMANCE



› STOCK MARKET INFORMATION

ISIN	AT0000767306
Stock symbol	RAT
Market segment	Standard Market Auction
Trading segment	Official Market
Share class	No-par value shares with voting rights
Number of shares	1,500,000
Total number of shares	1,500,000
Share price Dec. 30, 2017	€17.50
Market capitalization	€26,250,000
Earnings/share	1.58

› CAPITAL MARKET CALENDAR 2018

May 28, 2018	Annual General Meeting
June 4, 2018	Ex-dividend date
June 6, 2018	Dividend disbursement date
September 28, 2018	H1 2018 results
November 30, 2018	Q3 2018 results

RATH SHARES

RATH SHARES

RATH shares

After hitting €16.40 at the beginning of 2017, RATH's stock price moved steadily upward until the end of the year. As of June 30, 2017, the stock quoted at €16.90, an increase of around 3%. As the year progressed, RATH's stock price rose continually and closed out the year at €17.50.

Investor relations

The capital market communications team at RATH AG aims to comprehensively inform the financial community about market-relevant developments regularly and in a timely manner. As an insightful partner, we consider ourselves prepared to provide a fair and appropriate assessment of RATH'S stock. We also always concentrate on presenting a true and fair view of the Company.

For us, investor relations is not just an obligation to inform our shareholders about the Company. Instead, we see it as an opportunity to attract new investors from Austria and abroad.

Investor Relations Officer
Klemens Anderl
Email: ir@rath-group.com
Internet: www.rath-group.com

CORPORATE GOVERNANCE REPORT
IN ACCORDANCE WITH SECTION 243C
OF THE AUSTRIAN COMMERCIAL CODE (UGB)

CORPORATE GOVERNANCE REPORT IN ACCORDANCE WITH SECTION 243C OF THE AUSTRIAN COMMERCIAL CODE (UGB)

The RATH Group complies with the Austrian Corporate Governance Code (ACGC), a set of standards for good corporate governance and leadership.

These include internationally recognized good governance standards (OECD guidelines, EU Transparency Directive) as well as the applicable provisions of Austrian stock corporation law.

This ensures a high level of transparency for all companies in the Group. The ACGC applicable in fiscal year 2017 (as amended in January 2015) is available on the websites of the Austrian Working Group for Corporate Governance (www.corporate-governance.at) and RATH Aktiengesellschaft (www.rath-group.com).

We combat insider trading with a guideline in place since 2002 based on the Austrian Financial Market Authority's Issuer Compliance Regulation. The Code of Conduct updated in 2010 includes all of the company's rules governing conduct and provides guidance on the basic ethical and legal obligations of RATH employees.

Deviations
RATH Aktiengesellschaft follows the Austrian Corporate Governance Code rules, including the "R" rules, with only one exception.

In fiscal year 2017, RATH deviated from one "C" rule (out of 83 total rules in the Code). This deviation is explained and justified as follows in line with the principle of "comply or explain":

C Rule 62
RATH Aktiengesellschaft is required to have compliance with C Rule 62 of the Corporate Governance Code regularly evaluated by a third-party institution, no less than every three years, and must report on the result in the Corporate Governance Report.

In fiscal year 2017, RATH Aktiengesellschaft did not commission an evaluation by a third-party institution. The next external evaluation will be conducted within the three-year period prescribed by the Corporate Governance Code.

The Code features three categories of rules:

1. Legal requirement ("L")–These are mandatory legal requirements.

2. The "C" rules (comply or explain) should be followed and any deviation explained and the reasons for the deviation stated in order to ensure compliance with the Code.

3. "R" rules are recommendations.

CORPORATE GOVERNANCE REPORT IN ACCORDANCE WITH SECTION 243C OF THE AUSTRIAN COMMERCIAL CODE (UGB)

RATH applies the January 2015 version of the Corporate Governance Code with the following additional explanations:

Composition, term, and responsibilities of the Executive Board (No. 16 ACGC)
The Executive Board comprises "the following members":
Jörg Sitzenfrey, born 1976, has been a member of the Executive Board responsible for Production, Research & Development, and IT since January 1, 2013 (initial appointment).

Andreas Pfneiszl, born 1969, has been a member of the Executive Board responsible for Sales, Finance, and Human Resources since June 10, 2013 (initial appointment). In fiscal year 2017, the Executive Board members did not hold any positions on Supervisory Boards or comparable functions at domestic or foreign companies not included in the consolidated financial statements.

The management of RATH Filtration GmbH, Vienna, includes members of the Executive Board. Both Executive Board contracts run until December 31, 2020.

Report on Executive Board Compensation (No. 30/31 ACGC)
The Executive Board's compensation depends on the scope of the member's duties, the responsibilities assumed and personal performance of the Executive Board member as well as attainment of the Company's goals, the size and business performance of the Company. Performance-based compensation at RATH Aktiengesellschaft does not include stock options, but instead depends on variable performance criteria. These include meeting pre-defined targets with regard to the Company's business results, as well as qualitative and quantitative goals. The total compensation paid to the Executive Board in 2017 included both fixed and performance-based components. The ceiling for variable compensation was set at 50% of the base salary. In the event an Executive Board member steps down, that member has no claim or entitlement beyond what is stipulated by law. The Company holds a valid directors' and officers' insurance policy for the RATH Group's management.

EXECUTIVE BOARD COMPENSATION ‹

2016 *€ '000*	2017 *€ '000*		
200	205	Fixed	**Jörg Sitzenfrey**
10	10	Life insurance	
70	86	Variable	
280	**301**		
200	205	Fixed	**Andreas Pfneiszl**
10	10	Life insurance	
70	86	Variable	
280	**301**		
560	**602**		**Total Executive Board compensation**

CORPORATE GOVERNANCE REPORT IN ACCORDANCE WITH SECTION 243C OF THE AUSTRIAN COMMERCIAL CODE (UGB)

Composition of the Supervisory Board

The Supervisory Board currently comprises six members elected by the Annual General Meeting who all are all knowledgeable business and legal professionals possessing the requisite personal qualifications and have many years of experience. All members are Austrian citizens.

› SUPERVISORY BOARD MEMBERS	YEAR OF BIRTH	SUPERVISORY BOARD SEATS OR COMPARABLE FUNCTIONS	INITAL ORDER	END OF CURRENT TERM
Stefan Ehrlich-Adám (Chairman) › *independent*	1964	Managing Director, EVVA Sicherheitstechnologie GmbH; Vice President of the Presidential Council, ASI Austrian Standards Institute (ASI)	June 25, 2013	in 2018
Philipp Rath (Deputy Chairman) › *dependent*	1966	*Wirtschaftsprüfer* (Austrian public auditor) and partner, Rödl & Partner GmbH	July 17, 2003	in 2018
Christian B. Maier › *independent*	1966	Supervisory Board member of UBM Development AG	June 27, 2008	in 2018
Dieter Hermann › *independent*	1966	Supevisory Board, Silgan Holdings Austria GmbH	June 25, 2013	in 2018
Karin Bauer-Rath › *dependent*	1961	Managing Director, T1 ABW Abschleppdienst GmbH	June 1, 2016	in 2018
Andreas Meier › *independent*	1962	Management Board, SILHOU-ETTE International Schmied AG	June 1, 2016	in 2018

Report on Supervisory Board Compensation (No. 50/51 ACGC)

Subject to approval by the Annual General Meeting, the compensation of the Supervisory Board (including meeting attendance fees) for fiscal year 2017 totals €80 thousand (previous year: €76 thousand) and is broken down as follows by individual Supervisory Board member:

› SUPERVISORY BOARD MEMBERS	COMPENSATION (INCLUDING MEETING ATTENDANCE FEES)
Stefan Ehrlich-Adám (Chairman)	17,200
Philipp Rath (Deputy Chairman)	15,200
Dieter Hermann	13,200
Christian B. Maier	11,400
Andreas Meier	11,600
Karin Bauer-Rath	11,000

CORPORATE GOVERNANCE REPORT IN ACCORDANCE WITH SECTION 243C OF THE AUSTRIAN COMMERCIAL CODE (UGB)

Supervisory Board compensation comprises a fixed and an attendance-based component. The fixed component is an aggregate amount, and the second component comprises meeting attendance fees equal to a lump-sum per meeting in which a member participates.

Independence of the Supervisory Board (No. 53/54 ACGC)
Members of the Supervisory Board are considered "independent" within the meaning of the general provisions of Rule 53 if they have no business or personal relationship with RATH Aktiengesellschaft or its Executive Board that would constitute a material conflict of interest and is therefore suitable to influence the behavior of the member.

The criteria in Annex 1 of the Corporate Governance Code provide further guidance. According to these criteria, two members of the Supervisory Board of RATH Aktiengesellschaft must be classified as dependent.

Supervisory Board committees and activities (No. 36/39 ACGC)
The Supervisory Board of RATH Aktiengesellschaft is made up of experts in various fields and regularly holds meetings in which the subjects covered include the strategic direction of the Company and accounting issues. In this context, the Supervisory Board of RATH Aktiengesellschaft is involved as an advisory body in all fundamental decisions of the Executive Board.

RATH Aktiengesellschaft has Audit, Strategy, and Compensation committees. Other committees have not been formed. The following Supervisory Board members comprise the Audit Committee: Ehrlich-Adám (Chairman), Philipp Rath, Christian B. Maier and Dieter Hermann.

In 2017, the Audit Committee held two meetings in which the preparation and analysis of the annual financial statements and the internal control, auditing, and risk systems were discussed. The auditor of the financial statements participated in both meetings.

The following Supervisory Board members comprise the Strategy Committee: Ehrlich-Adám, Philipp Rath, Dieter Hermann, Andreas Meier. The Strategy Committee met twice in 2017 and discussed the potential for organic growth and acquisitions.

In its meeting in the first quarter of 2017, the Compensation Committee reviewed the attainment of targets for the variable component of the Executive Board's compensation. In addition to feedback discussions, the targets for the fiscal year were also defined. The following Supervisory Board members comprise the Compensation Committee: Ehrlich-Adám, Philipp Rath, Andreas Meier.

In 2017, the Supervisory Board held six regularly scheduled meetings (including the inaugural meeting of the Supervisory Board). The attendance rate was 93%. The focus of the Supervisory Board's activities in the year under review are presented in greater detail in the Report of the Supervisory Board.

CORPORATE GOVERNANCE REPORT IN ACCORDANCE WITH SECTION 243C OF THE AUSTRIAN COMMERCIAL CODE (UGB)

Efforts to promote women to Executive Board, Supervisory Board, and key management positions

There are no women on the Executive Board of RATH Aktiengesellschaft. One woman serves on the Supervisory Board (equal to around 17% female representation). Leadership positions in many areas in the first and second reporting levels are held by women. Women accounted for 18.7% of the Group's total workforce as of December 31, 2017 (previous year: 19.0%). The RATH Group supports and promotes the hiring of women in all areas of the Company. RATH also implements projects and makes investments to promote work-life balance. Furthermore, the recruiting process strongly emphasizes strictly equal treatment of men and women.

Internal Auditing

Due to our Company's size, we do not have an internal auditing department in the conventional sense. Internal auditing is performed by the process management department, which regularly reports material results to the Executive Board. Updated information on the implementation of the Code and changes made as a result of amendments to the law are described on the RATH Group's homepage (www.rath-group.com).

Detailed questions can be answered by the Executive Board member responsible for investor relations during the year or by the chairman of the Supervisory Board at the Annual General Meeting.

VIENNA, APRIL 26, 2018

The Executive Board

Andreas Pfneiszl

Jörg Sitzenfrey

RESPONSIBILITY STATEMENT
IN ACCORDANCE WITH SECTION 82 (4) NO. 3
OF THE AUSTRIAN STOCK EXCHANGE ACT (BÖRSEG)

RESPONSIBILITY STATEMENT IN ACCORDANCE WITH SECTION 82 (4) NO. 3 OF THE AUSTRIAN STOCK EXCHANGE ACT (BÖRSEG)

To the best of our knowledge, the consolidated financial statements for the period ended December 31, 2017, prepared in accordance with International Financial Reporting Standards (IFRSs) in the European Union (EU), give a true and fair view of the net assets, financial position, and results of operations of the Group; the Group management report for the period ended December 31, 2017, includes a fair review of the development and performance of the business and the position of the Group such that it gives a true and fair view of net assets, financial position, and results of operations; and the Group management report describes the important risks and uncertainties to which the Group is exposed.

To the best of our knowledge, the annual financial statements of the parent company for the period ended December 31, 2017, prepared in accordance with the Austrian Commercial Code (UGB), give a true and fair view of the net assets, financial position, and results of operations of the company; the management report for the period ended December 31, 2017, includes a fair review of the development and performance of the business and the position of the Group such that it gives a true and fair view of net assets, financial position, and results of operations; and the management report describes the important risks and uncertainties to which the company is exposed.

The performance for the fiscal year ended December 31, 2017, does not necessarily provide guidance on future results.

VIENNA, APRIL 26, 2018

The Executive Board

Andreas Pfneiszl

Jörg Sitzenfrey

REPORT OF THE SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD

Stefan Ehrlich-Adám, Chairman of the Supervisory Board

DEAR SHAREHOLDERS,

In performing the duties assigned to it by the law and the articles of incorporation, the Supervisory Board of RATH Aktiengesellschaft closely monitored the work of the Executive Board in the 2017 fiscal year. In doing so, the Supervisory Board discussed the position and performance of the Company in detail. The Supervisory Board was regularly informed by the Executive Board through oral reports at its meetings, supplemented by documents on the agenda items covered, as well as through regular written reporting. The Supervisory Board was involved in all decisions of material importance.

In the 2017 fiscal year, an active exchange of information took place between the Executive Board and Supervisory Board at six meetings (five regularly scheduled meetings and the inaugural meeting) in which the financial position and strategic development of our Group and key events, investments, and projects were discussed. At all of the meetings, the Executive Board's ongoing reporting included informing the Supervisory Board about key issues relating to the Company's management, business performance, and financial position. The Supervisory Board therefore had sufficient opportunity to fulfill its information and monitoring duties. We therefore carried out in full the duties assigned to us by the law and the articles of incorporation. We advised the Executive Board on managing the Company and closely monitored management. There were no grounds to raise any objections to the activities of the Executive Board.

Supervisory Board meetings

During the year under review, the Supervisory Board and the Executive Board thoroughly discussed all relevant issues relating to business development, including the risk position and risk management of the Company and the Group companies. In the course of its ongoing reporting and in all meetings, the Executive Board provided extensive reports to the Supervisory Board about the business and financial position of the Group, the HR situation, and investments and potential acquisition projects. Information about out-of-the-ordinary transactions and events was provided separately. The Supervisory Board's committees reported on their activities during the meetings. In the 2017 fiscal year, six regular meetings were held (including the inaugural Supervisory Board meeting). All members attended all meetings, with few exceptions. Reports on the previous fiscal year were presented at the meeting on March 6, 2017. The activity report on the Issuer Compliance Regulation was duly noted.

In the meeting on April 21, 2017, the 2016 annual financial statements and management report and the 2016 consolidated financial statements and management report were reviewed, the 2016 annual financial statements adopted as per the recommendation of the Audit Committee, and the proposal for the distribution of profit for the 2016 fiscal year approved. In addition, the resolution proposing appointment of the financial statement auditor was passed, preparations were undertaken for the Annual General Meeting, and reports on the current business situation were presented. On June 1, 2017, the meeting focused on a preliminary discussion of the Annual General Meeting. The meeting dates for 2017/2018 were agreed at the inaugural Supervisory Board meeting which took place on the same day after the Annual General Meeting. In the meeting on September 5, 2017, the half-yearly financial report was discussed and conclusions drawn about

REPORT OF THE SUPERVISORY BOARD

the current business situation. The last meeting of the year on December 19, 2017, was devoted to the budget, including the investments planned for 2018, and medium-term planning up to 2021 was approved.

Committees

The Supervisory Board formed three committees in the year under review. The Audit Committee met twice in 2017. On April 21, 2017, the Audit Committee conducted the final meeting for fiscal year 2016 with the financial statement auditor present. The annual financial statements and management report and the consolidated financial statements and management report were reviewed, and recommendations were made to the Supervisory Board to adopt the annual financial statements (without the presence of the auditor) and to select the auditor for the following year. In the meeting on December 19, 2017, the financial statement auditor presented information on the status of the preliminary audit of the annual and consolidated financial statements. The Strategy Committee met twice in 2017. The focus of the meeting on May 30, 2017, was the RATH Group's DRIVE growth strategy for organic growth and acquisitions. In the second meeting on November 28, 2017, an update on possible acquisitions was presented and the further course of action discussed. The Compensation Committee met on March 24, 2017. This meeting concentrated on determining the Executive Board's achievement of goals in 2016 as the basis of the variable compensation component and setting the targets for 2017.

Annual financial statements

The annual financial statements of RATH Aktiengesellschaft for the period ended December 31, 2017, and the management report prepared by the Executive Board along with the consolidated financial statements for the period ended December 31, 2017, prepared in accordance with IFRSs and the Group management report prepared by the Executive Board, including the accounts, were audited by the financial statement auditor elected by the Annual General Meeting on June 1, 2017, KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, which issued an unqualified audit opinion. In its meeting on April 11, 2018, the Supervisory Board's Audit Committee analyzed the results of the audit in the presence of the auditor and recommended that the Supervisory Board approve the annual financial statements. On April 26, 2018, the Supervisory Board passed a resolution favorably acknowledging the consolidated financial statements. The Supervisory Board reviewed the documents in accordance with Section 96 of the Stock Corporation Act (AktG) and the Corporate Governance Report and approved the annual financial statements which were thereby adopted in accordance with Section 96 (4) AktG. The Supervisory Board likewise reviewed and approved the Executive Board's proposal for the distribution of profit. The results of the audits and reviews conducted did not give rise to any objections.

VIENNA, APRIL 26, 2018

Stefan Ehrlich-Adám
Chairman of the Supervisory Board

GROUP MANAGEMENT REPORT

2017 GROUP MANAGEMENT REPORT

ECONOMIC ENVIRONMENT

Worldwide economic performance in 2017 indicated a positive trend in all economically significant regions. The global gross domestic product (GDP) expanded 3.0% (previous year: 2.4%), according to Oxford Economics Review. For the RATH Group, changes in global industrial production are very important in this context. Worldwide industrial output was up by a healthy 3.7% in the 2017 fiscal year (previous year: 1.8%).

The RATH Group's main sales markets are Europe and North America. These regions had been marked by lower GDP and industrial production growth rates in previous years. In 2017, however, these regions grew robustly.

The Eurozone's gross domestic product climbed 2.4% in 2017 (previous year: 1.8%). This was its strongest growth in seven years. At the same time, industrial production jumped 2.7% (previous year: 1.5%). After years in which GDP growth was primarily consumer driven, European industrial production picked up noticeably in 2017.

In the Eurozone, Germany was the clear growth leader, with GDP up 2.5% (previous year: 1.9%) and industrial production increasing 3.5% (previous year: 1.2%). Austria's economy was able to achieve even higher growth rates. For instance, the Austrian gross domestic product surged 2.9% (previous year: 1.5%). Lower, but stable, GDP growth was also reported by France (2017: 1.9%, previous year: 1.1%) and Italy (2017: 1.6% previous year: 1.1%) and especially Spain (2017: 3.1% previous year: 3.3%).

Certain Eastern European countries generated even stronger growth. For instance, the GDP in Romania and Turkey increased by 7%, in Slovenia by 4.9%, and in the Czech Republic by 4.5%.

North America is also reporting positive growth numbers. The gross domestic product in the United States was up 2.3% in 2017 (previous year: 1.5%). Similarly to Europe, this boost was primarily driven by expanded industrial production, which saw growth of 1.8% (previous year: -1.2%). In Asia, economic performance was also positive. The Asia-Pacific region reported overall GDP growth of 5.7% (previous year: 5.7%). As in previous years, the growth driver remained China, with gross domestic product up 6.9% (previous year: 6.7%) and stable expansion in industrial production of 6.1% (previous year: 6.1%).

SECTOR ENVIRONMENT

The refractory industry can look back on a far-reaching merger in 2017. Although the two companies in the merger will mainly be able to exercise their market strength in the magnesite refractory segment in the future, the combination also has consequences for the RATH Group's business. Mergers such as these in the refractory sector are the result of an oversupply of capacity in the refractory products business. Our industry worldwide continues to operate in a stagnant sales market undergoing consolidation.

2017 GROUP MANAGEMENT REPORT

The RATH Group operates successfully in the key industries for refractory products and solutions worldwide.

METALS

In the Metals business line, the majority of sales is generated by the steel and aluminum industry. In fiscal year 2017, we were unable to maintain a revenue share of 26% (previous year: 33%). That is mainly due to weaker demand in Europe.

The key products used in this segment are high-temperature wool, rolls, mats and combination modules as well as light-weight insulating bricks, and dense bricks and concretes.

Economic data indicates that we may expect stronger demand for our products from Europe in 2018, and the initial months of the new year have borne this out.

We serve customers worldwide, especially in the European Union, followed by the United States and Asia. The RATH Group is an established partner in this segment and known for offering customers technically complex and innovative end-to-end solutions.

Our expectation for this business line is slightly positive for the new fiscal year. We project an increase in the share of total sales attributable to the Metals business line.

FUELS, CHEMICALS & ENERGY

As in 2016, revenue in the Fuels, Chemicals & Energy (FCE) business line again increased 2% to 24% (previous year: 22%) of total sales. The recent gains stem primarily from the energy and environmental technology segment and here principally from Europe.

We also again saw growth in the United States. In this business line, we supply high-quality dense bricks and concretes as well as high-quality, light-weight insulating bricks, combination modules, vacuum-formed products, and filter components.

Our customers come from Europe, the United States, and Asia. In this business area, the RATH Group is considered a highly reliable supplier of products with an above-average life cycle.

Based on customer feedback from Europe and the United States, we forecast further growth in the Fuels, Chemicals & Energy business line again in 2018.

SPECIAL FURNACES

Our customers in the Special Furnaces business line are mainly manufacturers of special-purpose furnaces and kilns for industry, such as manufacturers of analysis and measurement devices for laboratories and producers of specialty dental furnaces. The business line’s share of total sales grew 2% to 18%

2017 GROUP MANAGEMENT REPORT

SECTOR SHARES 2017 FISCAL YEAR

- 26% Metals
- 24% FC & Energy
- 19% Ceramics
- 18% Special Furnaces
- 8% Domestic Fireplaces
- 5% Glass

SECTOR SHARES 2016 FISCAL YEAR

- 33% Metals
- 22% FC & Energy
- 16% Special Furnaces
- 15% Ceramics
- 10% Domestic Fireplaces
- 4% Glass

(previous year: 16%). Here, the RATH Group mostly supplies products made from high-quality vacuum-formed components based on high-temperature wools.

Our customers are from Europe and the United States. We are one of the top three suppliers on the market in this business segment. Thanks to our innovative engineering and production teams and our close cooperation with the manufacturers of special-purpose furnaces and kilns, we anticipate another increase in revenue in 2018.

CERAMICS

The RATH Group's Ceramics business line generates 19% (previous year: 15%) of total sales. This substantial increase is attributable to strong demand from European and U.S. industry. Our customers chiefly include the automotive industry and various manufacturers of ceramic products.

The product portfolio comprises high-quality dense bricks; high-quality, light-weight insulating bricks; combination modules, and vacuum-formed components as well as specialty concretes.

In 2018, we project stable, high growth.

DOMESTIC FIREPLACES

The Domestic Fireplaces business line is the RATH Group's most traditional business. The business line accounts for 8% of the RATH Group's total sales (previous year: 10%).

Conventional fireclay bricks in various forms as well as fireclay plates, including adhesive and mortar, are characteristic of the product portfolio we supply.

Our customers are mainly from the European Union, primarily from Austria, Germany, Hungary, and Eastern Europe. Based on what we know today, we forecast a slight decline in sales in 2018.

GLASS

The Glass business line contributes 5% (previous year: 4%) of total sales.

Our products for the glass industry are dense bricks and concretes and specialty pre-cast blocks.
The main sales markets for these products are Europe, the Middle East, and North America. We consider the Glass business line to be a key growth driver for the RATH Group and therefore expect the positive performance here to continue in 2018.

BUSINESS PERFORMANCE IN 2017

Fiscal year 2017 was an extremely successful one for the RATH Group.
Our sales and earnings figures were excellent.

2017 GROUP MANAGEMENT REPORT

The four quarters of fiscal year 2017 are presented below.

2016	2017	4TH QUARTER	3RD QUARTER	2ND QUARTER	1ST QUARTER	KEY FIGURES ‹
80,306	86,338	24,623	23,202	20,920	17,593	Revenue in € '000
9,140	10,395	3,417	3,178	2,250	1,550	EBITDA in € '000
11.4%	**12.0%**	**13.9%**	**13.7%**	**10.8%**	**8.8%**	**EBITDA margin**
5,016	6,237	2,437	2,144	1,160	496	EBIT in € '000
6.2%	**7.2%**	**9.9%**	**9.2%**	**5.5%**	**2.8%**	**EBIT margin**
542	536	536	533	532	535	Employees (avg.)
16.40	17.50	17.50	18.00	16.90	16.78	Share price in €

REVENUE PERFORMANCE

The RATH Group was able to significantly increase revenue over the reference period.

Compared with the prior-year period, the Group's revenue rose by €6,032 thousand, or 8%, to €86,338 thousand (previous year: €80,306 thousand). This is broken down across our individual companies that represent our primary segments as follows:

The Austrian company, Aug. RATH jun. GmbH, Krummnussbaum, was not able to entirely maintain the previous year's level of revenue and saw a decline of 4% to €25,394 thousand (previous year: €26,588 thousand). Responsible for this is the project business, which is very volatile and subject to increasingly strong fluctuations.

Our German company, RATH GmbH, with three sites (Meissen, Bennewitz, and Mönchengladbach) was able to grow revenue, principally outside of the project business. The growth of 4% to €29,218 thousand (previous year: €27,991 thousand) had a significant impact.

Our Hungarian business, RATH Hungaria Kft., Budapest, increased revenue by a substantial 60% to €12,052 thousand (previous year: €7,521 thousand). This is due to very robust demand for our products in the FC&E business line, particularly in energy and environmental technology.

Our American subsidiary, RATH Inc., Newark, grew revenue by 5% to €14,387 thousand (previous year: €13,638 thousand). The revenue drivers here were customers from the FC&E and Special Furnaces business lines.

Our distributors in Europe and Mexico also saw revenue grow considerably. With revenue of €5,287 thousand (previous year: €4,568 thousand), these companies saw an increase of 16% over the previous year. Additional information is provided in segment reporting.

2017 GROUP MANAGEMENT REPORT

EARNINGS PERFORMANCE

Compared with the previous year, the gross margin remained stable at 58% (previous year: 59%). Earnings before interest, taxes, depreciation, and amortization (EBITDA) rose by €1,255 thousand to €10,395 thousand (previous year: €9,140 thousand) and now accounts for a share of revenue of 12%. Earnings before interest and taxes increased by €1,221 thousand to €6,237 thousand (previous year: €5,016 thousand). Our EBIT margin is therefore 7%.

Personnel expenses climbed 2% to €26,091 thousand (previous year: €25,557 thousand). The ratio of personnel expenses to sales was lower and now amounts to 30% (previous year: 32%). Other operating expenses amounted to a share of 17% of sales (previous year: 17%). In absolute terms, expenses rose by €798 thousand to €14,306 thousand (previous year: €13,508 thousand). At the end of the reporting period, the financial result was €-3,346 thousand (previous year: €-311 thousand). The increase is largely the result of the greater strength of the euro against the US dollar and stems from foreign currency measurement. On December 31, 2016, the USD/EUR exchange rate stood at 1.054, but on December 31, 2017, was 1.199, an increase of 14%. This led to a negative currency translation effect of €2,455 thousand (previous year: €300 thousand). Interest expense was up slightly by €90 thousand. The measurement of interest rate swaps had a positive effect on the financial result of €206 thousand (previous year: €185 thousand).

Consolidated earnings therefore totaled €2,371 thousand (previous year: €3,945 thousand).

Due to the Group's excellent results and continued positive development in 2017, the Executive Board and Supervisory Board will propose distribution of a dividend of €0.75 per no-par value share to the upcoming Annual General Meeting.

NET ASSETS AND FINANCIAL POSITION

The net assets and financial position of the RATH Group at the end of the 2017 reporting period are described below. In the 2017 reporting period, total assets increased by €13,287 thousand to €98,349 thousand (previous year: €85,062 thousand). Current assets made up 59% of total assets (previous year: 53%). This is largely due to growth in cash levels as of December 31, 2017, by €16,042 thousand to €19,569 thousand (previous year: €3,527 thousand). The increase was largely the result of the assumption of a borrower's note loan. Receivables, including other receivables, dropped by €2,571 thousand to €17,476 thousand (previous year: €20,047 thousand). Inventories declined by €539 thousand to €20,843 thousand (previous year: €21,382 thousand).

Property, plant, and equipment remained fairly stable at €38,430 thousand (previous year: €38,122 thousand). Capital expenditure in 2017 amounted to €5,788 thousand (previous year: €5,627 thousand). Deferred tax assets were up €48 thousand to €2,032 thousand (previous year: €1,984 thousand) for a ratio of noncurrent assets to total assets of 41% (previous year: 47%).
Current liabilities made up 11% of total assets (previous year: 36%). This was mainly the result of a significant

2017 GROUP MANAGEMENT REPORT

drop in current financial liabilities. By assuming the borrower's note loan, which has terms of five and seven years, the Group was able to repay current financial liabilities.

The ratio of noncurrent liabilities to total assets is 44% (previous year: 14%). The assumption of the borrower's note loan had the greatest effect here. The Group's gearing (ratio of net financial liabilities to equity) decreased considerably to 46% (previous year: 54%). Net debt as of December 31, 2017, amounted to €20,150 thousand, down €3,316 thousand from the reference period (previous year: €23,466 thousand).

As of the balance sheet date of December 31, 2017, the Group has equity of €43,989 thousand (previous year: €43,091 thousand). The ratio of equity to total assets was 45% (previous year: 51%).

SUSTAINABLE FINANCING STRATEGY

For years now, the Group has financed its activities with secured liquidity and its own funds to the greatest extent possible. In the 2017 fiscal year, the Group's financing was restructured from mostly short-term loans to noncurrent financial liabilities. The Group was able to obtain a borrower's note loan payable at term with a term of five years to 2022 and seven years to 2024, which improved the financing structure considerably. The increase in financial liabilities reduced the equity ratio to a still respectable 45% (previous year: 51%). A key Group goal is to keep the equity ratio at more than 40%.

NET CASH FLOW

Operating cash flow was €10,148 thousand at the end of the reporting period, up from the previous year's figure of €5,903 thousand. Net cash used in investing activities rose €195 thousand to €5,788 thousand (previous year: €5,593 thousand). The restructuring of our financial liabilities resulted in net cash provided by financing activities of €11,754 thousand (previous year: €-299 thousand).

Our free cash flow improved by €16,103 thousand year over year to €16,114 thousand (previous year: €11 thousand). Cash and cash equivalents on December 31, 2017, amounted to €19,569 thousand (previous year: €3,527 thousand).

EMPLOYEES

Motivated employees with the best possible training are the key success factor for the RATH Group. Thanks to their first-rate professional and social skills, they guarantee our excellent product quality and are an important engine for the future.

On the one hand, our success rests on a passion for innovative refractory solutions that we channel into our products and technologies. On the other hand, it is the result of the strong motivation and loyalty of our employees. As of December 31, 2017, the RATH Group had a total workforce of 516 FTEs, or full-time equivalents (previous year: 485). The RATH Group does not offer a stock option program. Management, executives, and other key employees take part in bonus models that vary depending on their location.

2017 GROUP MANAGEMENT REPORT

Human resources management activities are carried out according to instructions issued by the parent company and analogously at the subsidiaries. The CFO is responsible for strategic HR duties.

In 2017, the RATH Group spent a total of €150 thousand on employee continuing education and training (previous year: €150 thousand).

Our employees stand out due to their qualifications, motivation, responsibility, discipline, loyalty, and mutual respect in a family-oriented working environment.

The Executive Board would like to extend its deepest gratitude to all RATH employees for their commitment, hard work, and constructive cooperation in the past fiscal year.

CORPORATE SOCIAL RESPONSIBILITY

The RATH Group's Supervisory Board and management value sustainable corporate governance highly. As a result, strategic decision-making and operational leadership alike are driven by environmental, economic, and social factors.

The RATH Group has been part of the European emissions trading system since January 1, 2005. Companies participating in this system (currently Aug. RATH jun. GmbH, Austria) receive emissions certificates that are compared with the actual emissions for the year and must be returned to the responsible authorities within four months after the end of a calendar year. If actual emissions exceed the certificates issued for the year, the deficit must be made up by buying additional certificates. The RATH Group had a sufficient number of certificates left over. Among RATH's most important Group-wide sustainability strategies are the RATH brand and product development strategy, innovation and production processes aimed at optimizing the environmental and economic aspects of products as well as their manufacturing process. We continued to collect important basic data from our Group companies in fiscal year 2017.

Our coworkers are the most critical key to the further positive, sustainable performance of our Company. One of the foundational principles of our Company is treating each other with openness and respect in all areas regardless of our job and level in the Company.

RESEARCH & DEVELOPMENT

The RATH Group has a central research and development department that focuses on development, process technologies, and material flows. Intensive and sustainable research and development are major building blocks of our strategy as a premium supplier. Research, technology, and innovation issues and projects are the highest priority for us and are the cornerstones of our company's success. They are therefore critical for sustaining our edge over the competition and driving growth.

In 2017, a number of projects were carried out. Particularly notable were the further development of hot-gas filter cartridges and new production processes for concrete pre-cast blocks.

2017 GROUP MANAGEMENT REPORT

REPORTING ON THE KEY FEATURES OF THE INTERNAL CONTROL SYSTEM FOR PURPOSES OF FINANCIAL REPORTING

The internal control system (ICS) defines all processes implemented to ensure the efficiency and propriety of our accounting. It makes transactions less error-prone, protects assets from losses from damage or fraud, and guarantees that our processes comply with the articles of incorporation, Group guidelines, and applicable law (compliance).

The control activities for the accounting process feature a clear organizational structure and workflows with functions specifically assigned to individuals (e.g., in finance, accounting, and controlling). The employees involved in the accounting process have the requisite professional qualifications. Mostly off-the-shelf software is used for accounting purposes.

The guidelines governing the RATH Group are based on the RATH management manual, compliance guidelines, and rules of procedure and signature regulations for the management and executives of all RATH Group companies. These rules are revised when necessary in accordance with compliance regulations, and the relevant management team is verifiably informed of these changes. The local management team is charged with ensuring compliance with the guidelines at the respective RATH subsidiary. Among other things, the rules of procedures stipulate mandatory compliance with the rules in the management manual and define a list of business transactions that require the approval of the Group's management. The RATH Group's management manual includes the information and rules necessary for the accounting process such as the consolidation manual (reporting guidelines, accounting and measurement rules) and IT guidelines.

Each quarter, the Group's results are consolidated according to the provisions of the UGB for purposes of reporting to the Supervisory Board and the shareholders. Every six months, the consolidation is according to IFRSs rules. The consolidated financial statements are fully audited by a financial statement auditor who guarantees uniform audit standards through its international network in close consultation with the Supervisory Board and the Audit Committee. Standardized monthly management reporting comprises all individual companies included in the consolidated financial statements of the RATH Group. RATH Aktiengesellschaft's Supervisory Board receives information about the internal control system regularly at its meetings. It is the Audit Committee's responsibility to monitor the effectiveness of the control system.

RISK MANAGEMENT

The RATH Group is exposed to various opportunities and risks in the course of its worldwide business activities. Continually identifying, evaluating, and managing risks is a key ingredient of the management, planning, and controlling process. In this process, risk management taps into the organizational, reporting, and management structures existing in the Group. These processes are evaluated on an ongoing basis by the central process management team. Substantively, this involves documenting all workflows in the Company and documenting conduct in the case of deviations, learning from mistakes, and continually pursuing improvement. This process-focused thinking is anchored in the ISO 9001 standard.

2017 GROUP MANAGEMENT REPORT

The risk management system ensures that risks are assessed and analyzed regularly. This guarantees that risks will be anticipated, identified early, and, if they materialize, that countermeasures will be introduced quickly.

MATERIAL RISKS

The risks that could adversely affect the net assets, financial position, and results of operations of the RATH Group are mostly unchanged from previous periods as follows:

Procurement

A key issue in procurement is preventing dependence on individual suppliers to the greatest extent possible. Our central purchasing team combats this actively by putting the conditions in place for a balanced supplier portfolio while taking into account reasonable purchasing quantities and prices. In order to obtain better prices from our suppliers, it is often necessary to purchase materials in larger lots. The disadvantage to this approach is tying up capital.

Production

The key stages of the RATH Group's value chain lie in product manufacturing. A possible risk of business interruption with direct influence on the Group's earnings is covered by our Group-wide business interruption insurance. The Group counters this risk proactively by continually analyzing the individual plants and conducting preventive maintenance. In this context, an increasing number of digital Industry 4.0 solutions are being evaluated. Nonetheless, product liability risks cannot be ruled out entirely. Any quality defects that may arise are corrected in the interest of our customers. The resulting external costs are covered by our Group-wide product liability insurance. Damage to our image that may occur remains a risk for our Group.

Sales

The worldwide sale of products and projects also entails risks. Our end-to-end solutions are currently supplied to countries that are not always stable either economically or politically. Our sales managers continually obtain information about the respective sales markets and countries, which helps us identify bad debts at an early stage and introduce countermeasures. Outside of the European Union and the United States, the RATH Group's payment terms are primarily set through letters of credit. This ensures that our sales are secured by an international bank.
For the sales that we do not secure with letters of credit, internal receivables management has set up credit limits. Receivables management also evaluates the credit risk arising with third-party information from credit reporting firms and our experience with the relevant customers or in the customer's respective country. The information collected in this way is used to set the credit limits.

The RATH Group does not hold business credit insurance. Uncollectable receivables in the RATH Group in fiscal year 2017 amounted to €370 thousand (previous year: €420 thousand), which is equivalent to 0.4% (previous year: 0.5%) of sales revenues.

2017 GROUP MANAGEMENT REPORT

Liquidity

The goal of liquidity management is to ensure that the Group has sufficient liquidity at all times. RATH's external financing is mostly provided by international banking groups. The principle of internal financing is applied within the Group. That means that the financing needs of subsidiaries are covered with internal loans as much as is possible and financially viable. The determination of credit limits and the cost of obtaining funding from banks depends on their assessment of the future prospects of the RATH Group. We therefore view our relationships with banks as partnerships so that we can ensure that our banking partners have a clear and current view of the Group's financial situation at all times.

Foreign currencies and interest

The RATH Group generally supplies customers in the relevant company currency. The continual changes in the exchange rates of the USD/EUR and HUF/EUR currency pairs can have positive or negative effects on the financial result of individual companies and, as a result, that of the Group. Currently, the RATH Group holds an interest rate swap with a term ending in May 2018. Due to currently low interest rate levels, this hedge has a negative value.

OVERALL RISK

The RATH Group's risks are monitored to the greatest extent possible with the aforementioned tools and procedures, and the Company's continued existence as a going concern is not in danger as things stand today.

DISCLOSURES IN ACCORDANCE WITH SECTION 243A UGB

The share capital is composed of 1,500,000 no-par value shares (previous year: 1,500,000 no-par value shares) with each no-par value share representing an equal interest in the share capital.
The Executive Board is not aware of any limitations whatsoever on voting rights or the transfer of shares. RATH AG does not hold any treasury shares. The shares in free float are held by Austrian and international investors. RATH stock is listed on the Standard Market Auction of the Vienna Stock Exchange under ISIN AT0000767306.

No material interests are held by employees of the RATH Group to the best of the Company's knowledge. All shareholders as well as all employees holding shares have the right to exercise their voting rights at the annual general meeting.

There are no provisions not directly stipulated by law governing the appointment and dismissal of Executive Board and Supervisory Board members and amendments to the articles of incorporation of the Company.

The Executive Board is not aware of any significant agreements to which the Company is a party that would enter into force upon a change of control over the Company as a result of a takeover offer.
There are also no indemnity agreements between the Company and its Executive Board and Supervisory Board members or employees for the event of a public takeover offer.

SHAREHOLDER STRUCTURE
DECEMBER 31, 2017

66.7% RATH Holding GmbH
18.8% Rath family members
14.5% Free float

2017 GROUP MANAGEMENT REPORT

OUTLOOK

Macroeconomic developments
As of February 2018, economists expected the global economy to grow faster in 2018 than in the previous year. Improved growth prospects are anticipated above all because extreme macroeconomic risks did not materialize in the previous year.

The continued stable growth in China, the progress to date on the negotiations for the UK's exit from the EU, and the currently positive economic performance in Europe and the United States are reasons for optimism. This optimism could extend well beyond 2018.

Nonetheless, structural problems remain. For instance, the Eurozone continues to suffer from macroeconomic disparities; the expansive monetary and fiscal policy in China will reach its limits; and, like in past years, geopolitical tensions and possible new hot spots could overshadow the solid growth outlook. Against this backdrop, Oxford Economics (OE), a research institute, projects growth in the real global gross domestic product (GDP) of 3.2% for 2018, compared with 3.0% in 2017. The growth forecast for global industrial production in 2018 amounts to 3.8% (2017: 3.7%).

Based on a competitive, profitable, and robust product mix for our customers and a stable, positive market environment, the RATH Group considers itself well prepared for fiscal year 2018. A key goal is to grow further. In addition to organic growth through our new product groups, we are also focusing strongly on sustainably reinforcing our Group through acquisitions. Within the Company, the RATH Group will continue to concentrate heavily on quality, innovation, and costs.

On this basis and assuming steady exchange rates and interest rate levels, RATH's management anticipates a further marked increase in revenue and stable Group earnings at a high level for the 2018 fiscal year.

Uncertainties and risks associated with global and regional crises remain, however, and at any time could have a strong influence on the fiscal year.

No reportable events occurred after the balance sheet date.

VIENNA, APRIL 26, 2018

The Executive Board

Andreas Pfneiszl

Jörg Sitzenfrey

CONSOLIDATED FINANCIAL STATEMENTS
RATH GROUP 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	12/31/2017 € '000	12/31/2016 € '000
Cash and cash equivalents	(7)	19,569	3,527
Trade receivables	(5)	15,876	17,758
Other receivables and prepaid expenses	(6)	1,600	2,289
Inventories	(4)	20,843	21,382
Current assets		**57,887**	**44,956**
Financial assets	(3)	730	735
Intangible assets	(2)	395	398
Property, plant and equipment	(1)	37,304	36,988
Deferred tax assets	(12)	2,032	1,984
Non-current assets		**40,462**	**40,106**
TOTAL ASSETS		**98,349**	**85,062**
Current financial liabilities	(10)	416	20,295
Trade payables	(13)	5,970	6,681
Other current liabilities	(14)	3,450	2,390
Current provisions	(11)	770	750
Current income tax liabilities	(12)	240	194
Current liabilities		**10,846**	**30,309**
Non-current financial liabilities and bonds	(10)	39,038	6,189
Liabilities from lease obligations	(10)	996	1,244
Provisions for personnel expenses	(9)	3,192	3,155
Other non-current financial liabilities	(14)	0	311
Other non-current liabilities and deferred income	(14)	176	192
Deferred tax liabilities	(12)	113	570
Non-current liabilities		**43,514**	**11,662**
Share capital		10,905	10,905
Capital reserves		1,118	1,118
Net retained profits and unappropriated reserves		34,524	33,278
Currency translation reserve		-1,744	-1,591
Other reserves		-816	-621
Non-controlling interests		2	2
TOTAL EQUITY	(8)	**43,989**	**43,091**
TOTAL EQUITY AND LIABILITIES		**98,349**	**85,062**

CONSOLIDATED INCOME STATEMENT

	NOTE	2017 € '000	2016 € '000
Revenue	(16)	86,338	80,306
Other operating income	(19)	746	1,023
		87,084	**81,329**
Cost of materials and purchased services	(17)	-36,292	-33,124
Personnel expenses including social security benefits and levies	(18)	-26,091	-25,557
Other operating expense	(20)	-14,306	-13,508
EBITDA		**10,395**	**9,140**
Amortization and write-downs of intangible assets	(2)	-97	-100
Depreciation and write-downs of property, plant and equipment	(1)	-4,061	-4,024
EBIT		**6,237**	**5,016**
Interest income	(21)	16	17
Interest expense	(21)	-913	-824
Other financial income	(21)	468	894
Other financial expenses	(21)	-2,917	-397
Earnings before taxes (EBT)		**2,891**	**4,705**
Taxes on income	(12)	-520	-760
Consolidated earnings		**2,371**	**3,945**
Attributable to the shareholders of the parent company		2,370	3,944
Non-controlling interests		1	1
Consolidated earnings		**2,371**	**3,945**
Basic earnings per share (in €)	4.6.	1.58	2.63
Diluted earnings per share (in €)	4.6.	1.58	2.63

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2017 € '000	2016 € '000
Consolidated earnings after income taxes	2,371	3,945
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of non-current obligations to employees pursuant to IAS 19	-255	-88
Taxes attributable thereon	64	22
	-191	**-66**
Items that will be reclassified subsequently to profit or loss:		
Net change in fair value of available-for-sale financial assets	-5	33
Taxes attributable thereon	1	-8
Available-for-sale financial assets: reclassification to profit or loss	0	-97
Taxes attributable thereon	0	24
Currency translation differences	-152	132
	-156	**83**
Total other comprehensive income	**-347**	**17**
Attributable to the shareholders of the parent company	-347	17
Attributable to non-controlling interests	0	0
Consolidated total comprehensive income after taxes	**2,024**	**3,962**
Attributable to the shareholders of the parent company	2,023	3,962
Attributable to non-controlling interests	1	1
Consolidated total comprehensive income	**2,024**	**3,962**
Basic earnings per share (in €)	**1.58**	**2.63**
Diluted earnings per share (in €)	**1.58**	**2.63**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	SHARE CAPITAL € '000	CAPITAL RESERVES € '000	DIFFERENCES CURRENCY TRANSLATION € '000	OTHER RESERVES € '000	NET RETAIN. PROFITS & UNAPPROP. RES. € '000	TOTAL EQUITY SHAREHOLDER € '000	SHARE OF NON-CONTROLLING INTERESTS € '000	TOTAL EQUITY € '000
Balance on 1/1/2016	**10,905**	**1,118**	**-1,723**	**-507**	**30,084**	**39,877**	**2**	**39,879**
Consolidated earnings 2016	0	0	0	0	3,944	3,944	1	3,945
Other comprehensive income 2016	0	0	132	-114	0	17	0	17
Consolidated TCI	**0**	**0**	**132**	**-114**	**3,944**	**3,962**	**1**	**3,962**
Disposal	0	0	0	0	0	0	-1	-1
Distribution	0	0	0	0	-750	-750	0	-750
Balance on December 31, 2016	**10,905**	**1,118**	**-1,591**	**-621**	**33,278**	**43,089**	**1**	**43,091**
Consolidated earnings 2017	0	0	0		2,371	2,371	0	2,371
Other comprehensive income 2017	0	0	-152	-195	0	-347	0	-347
Consolidated TCI	**0**	**0**	**-152**	**-195**	**2,371**	**2,023**	**1**	**2,024**
Disposal	0	0	0	0	0	0	0	0
Distribution	0	0	0	0	-1,125	-1,125	0	-1,125
Balance on December 31, 2017	**10,905**	**1,118**	**-1,744**	**-816**	**34,524**	**43,987**	**2**	**43,989**

CONSOLIDATED STATEMENT OF CASH FLOWS

	NOTE	2017 € '000	2016 € '000
Consolidated earnings after taxes		**2,371**	**3,944**
Adjustments to consolidated earnings			
Depreciation, amortization, and write-downs	(1) (2)	4,157	4,124
Write-downs and reversals of write-downs of long-term financial assets		0	-97
Change in provisions for personnel		-218	-50
Change in allowance		458	-496
Change in deferred taxes		-402	-52
Exchange rate differences		2,455	-515
Interest cost	(21)	913	824
Interest income	(21)	-16	-17
Income taxes	(12)	921	812
Measurement of other liabilities		-311	-185
(Gain)/loss on the disposal of long-term equity investments		0	21
(Gain)/loss on the disposal of assets		5	-13
		10,333	**8,301**
Changes in net current assets			
Trade receivables		793	-2,178
Other receivables		611	63
Inventories		-201	409
Trade payables		-671	1,320
Provisions		25	-121
Other liabilities		1,046	-333
		1,604	**-839**
Interest paid		-933	-805
Interest received		16	17
Taxes on income paid		-873	-771
Net cash inflows/outflows from operating activities		**10,148**	**5,903**
Purchases of property, plant and equipment and intangible assets	(1)	-5,788	-5,627
Proceeds from the disposal of property, plant and equipment and intangible assets		0	34
Cash flows from investing activities		**-5,788**	**-5,593**
Cash proceeds from borrowings		35,000	3,473
Repayment of financial liabilities		-21,916	-2,754
Cash payments for finance lease liabilities		-205	-268
Dividends paid		-1,125	-750
Cash flows from financing activities		**11,754**	**-299**
Cash and cash equivalents at the beginning of the year		**3,527**	**3,450**
Net change in cash and cash equivalents		**16,114**	**11**
Non-cash currency translation differences		**-72**	**66**
Cash and cash equivalents at the end of the year		**19,569**	**3,527**

EXPLANATIONS ON THE CONSOLIDATED STATEMENT OF CASH FLOWS

The reconciliation of changes in the cash flows from financing activities in the current fiscal year is as follows:

	CAPITAL PROJECT LOANS *€ '000*	OVERDRAFT FACILITIES *€ '000*	EXPORT LOANS *€ '000*	LIABILITIES FROM FINANCE LEASES *€ '000*	TOTAL *€ '000*
Balance on 1/1/2017	**713**	**21,517**	**3,963**	**1,534**	**27,728**
Change from cash flows from financing activities					
Cash proceeds from borrowings	35,000	0	0	0	35,000
Repayment of financial liabilities	-524	-17,429	-3,963	0	-21,916
Cash payments for finance lease liabilities	0	0	0	-205	-205
Currency translation	0	-88	0	-70	-158
Balance on 12/31/2017	**35,190**	**4,000**	**0**	**1,260**	**40,449**

The totals column in the table above corresponds to the sum of current and non-current financial liabilities excluding derivative financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY

RATH Aktiengesellschaft (hereinafter "RATH AG"), Walfischgasse 14, 1010 Vienna, and subsidiaries (hereinafter referred to as the "RATH Group") manufacture and distribute refractory materials for industrial customers and commercial operations. The primary sales markets are in the European Union, Eastern Europe and the USA. The parent company's registered office is Vienna. Production sites are located in Austria, Germany, Hungary and the USA. There are also sales companies in Austria, the Czech Republic, Poland, Ukraine and Mexico (and France until November 2016).

The shares of RATH AG are listed on the Vienna Stock Exchange in the Standard Market Auction segment.

2. ACCOUNTING PRINCIPLES AND POLICIES

2.1. ACCOUNTING PRINCIPLES

The consolidated financial statements of the RATH Group as of December 31, 2017, were prepared in compliance with the International Financial Reporting Standards (IFRSs), as adopted by the European Union, and the supplemental provisions of section 245a (2) of the Austrian Commercial Code (UGB).

The consolidated financial statements are prepared based historical costs, modified by the fair value measurement of available-for-sale financial assets and by the recognition of financial assets and financial liabilities (including derivatives) at fair value through profit or loss. Deferred taxes are determined using the liability method for all temporary differences between the carrying amounts of assets and liabilities in the IFRS consolidated financial statements and the existing tax bases at the individual companies.

The accounting of companies included in the consolidated financial statements is based on the uniform accounting methods of the RATH Group. The consolidated financial statements are prepared in thousands of euros ("€ '000"), rounded off pursuant to commercial rounding method. Rounding differences may occur when totaling rounded amounts and percentages through the use of automated calculation methods. These consolidated financial statements were released for publication by the Executive Board on April 26, 2018. The annual financial statements of RATH AG were provided to the Supervisory Board for review on April 11, 2018.

2.2. AMENDMENTS AND EXPANSION OF THE IFRSs

New and revised standards that are being applied by the Company for the first time

The RATH Group has examined the impacts of the following newly-applied standards and has concluded that they have no, or no material, impacts on the consolidated financial statements as of December 31, 2017.

	STANDARD/INTERPRETATION/ AMENDMENT	APPLICATION DATE	IMPACTS IN THE REPORTING PERIOD
IAS 7	Amendment: Disclosure Initiative	1/1/2017	No material impacts, however, requirement for an additional reconciliation of cash flows from financing activities
IAS 12	Amendment: Recognition of Deferred Tax Assets for Unrealized Losses	1/1/2017	None
IFRS 12	Annual improvements to IFRS 2014-2016 Cycle: Disclosures of Interests in Other Entities	1/1/2017	None

The amendments in IAS 7 as well as the disclosure initiative described therein result in the requirement for enhanced disclosures as well as a detailed reconciliation of the changes in the cash flows from financing activities contained in the consolidated statement of cash flows, which are presented separately folllowing the consolidated statement of cash flows.

Standards, amendments, and interpretations newly adopted by the European Union, and those not yet adopted and not applied early

The following amendments or new versions of standards and interpretations have not yet been fully adopted by the EU as of the reporting date and do not yet require application for the fiscal year and were also not applied early.

Standards already adopted by the European Union and requiring future application:

	STANDARD/INTERPRETATION/ AMENDMENT	EFFECTIVE DATE	EXPECTED IMPACTS
IFRS 9	Financial Instruments	1/1/2018	No material impacts
IFRS 15	Revenue from Contracts with Customers	1/1/2018	No material impacts
IFRS 15	Clarification: Revenue from Contracts with Customers	1/1/2018	No material impacts
IFRS 2	Amendment: Classification and Measurement of Share-based Payment Transactions	1/1/2018	None
IFRS 4	Amendment: Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"	1/1/2018	None
IAS 40	Amendments: Transfers of Investment Property	1/1/2018	None
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1/1/2018	None
IFRS 9	Amendment: Prepayment Features with Negative Compensation	1/1/2019	None
IFRS 16	Leases	1/1/2019	No material impacts

Standards not yet adopted by the European Union:

	STANDARD/INTERPRETATION/AMENDMENT	EFFECTIVE DATE*
IFRIC 23	Uncertainty over Income Tax Treatments	1/1/2019
IAS 28	Amendment: Long-term Interests in Associates and Joint Ventures	1/1/2019
IAS 19	Amendment: Plan Amendment, Curtailment or Settlement	1/1/2019
Various	Annual Improvements to IFRS 2015-2017 Cycle: Improvements to IFRS 3, IFRS 11, IAS 12 and IAS 23	1/1/2019
IFRS 17	Insurance Contracts	1/1/2021
IFRS 10, IAS 28	Amendment: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Open

*IASB planned application date

An early application of the standards listed above is not currently planned. The RATH Group must apply IFRS 15 and IFRS 9 for the first time on January 1, 2018.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 "Revenue from Contracts with Customers" governs revenue recognition and thus replaces IAS 11 "Construction Contracts", IAS 18 "Revenue" and the related IFRIC Interpretations such as IFRIC 13 Customer Loyalty Programs. The standard contains a five-step model and is generally applicable for the accounting treatment of revenues from contracts with customers for fiscal years beginning on or after January 1, 2018. Under IFRS 15, revenue recognition is based on the transfer of control principle. Accordingly, revenues are recognized when the performance obligation assumed is provided or goods and merchandise are delivered to the customer and therefore control has been transferred. Revenues should be recognized in the amount of the consideration (transaction price) that can be expected for the satisfied performance obligation (transfer of goods and merchandise or provision of services). The standard replaces all currently existing requirements for revenue recognition pursuant to IFRS. As a result, among other things, additional qualitative and quantitative disclosure requirements will be necessary. These disclosures are intended to enable the users of financial statements to be able to understand the nature, amount, timing, and uncertainty of revenues and the resultant cash flows from contracts with customers. The RATH Group will apply the new standard as of January 1, 2018. Accordingly, the cumulative effects from initial application will be recognized in equity using the modified retrospective approach as of January 1, 2018, the date of initial application. The selection of the modified retrospective transition method means that neither the consolidated statement of financial position nor the consolidated income statement for the 2017 fiscal year will be revised, and the revenue in this period was recognized pursuant to IAS 11 or IAS 18. Going forward, IFRS 15 will be applied in accordance with the selected transition method to contracts that are not yet satisfied as of January 1, 2018. In the course of evaluating and analyzing the individual revenue groups in the RATH Group as a globally active provider of customer-specific special refractory solutions, the impacts of the adoption of IFRS 15 on the consolidated financial statements were evaluated and possible deviations from the previous revenue recognition in construction contracts (projects) were analyzed. Based on the evaluation and analysis of the significant types of business and contract groups identified, and based on the greatest possible use of standardized contracts for similar groups of contracts and agreements in the course of the RATH Group's current operations, no significant adjustment is expected to result from the initial application of IFRS 15.

Sale of products and goods: Revenue is currently recognized for the sale of standard or serial products when benefical ownership and the inherent risks and opportunities are transferred in accordance with the stipulated delivery terms. Provided that both the revenue and costs can be reliably determined, the revenue is recognized at the date when the performance obligation is fulfilled and the consideration will probably be received. IFRS 15 provides for the recognition of revenue when the customer receives control and power of disposal over the goods. For contracts with multiple components that, in addition to the sale of products and goods, contain additional performance obligations such as services like planning and engineering, assembly, supervision of the installation site, picking and packing, maintenance and repair, as well as similar additional services, in accordance with IFRS 15 the consideration will be apportioned and allocated to the individual components in accordance with the proportionate stand-alone selling prices, whereby for contracts with multiple components the value of the additional agreed services is not significant compared to the value of the products and goods. Revenues from transactions that are clearly distinct from the product, such as services and maintenance, were already clearly recognized separately from the revenue from goods and products. Therefore, the new and more detailed provisions of IFRS 15 will not result in any significant changes or adjustments to the consolidated financial statements with respect to contracts with multiple components. No material adjustments as of January 1, 2018, are expected to result from the initial application of IFRS 15 to the sale of serial and standard products.

Construction contracts combined with services: Revenue from customer-specific production orders in the project business is currently recognized depending on the percentage of completion of each project. Under the new IFRS 15 standard, new criteria are now defined for the recognition of revenue over time. Essentially, all contracts and agreements in the project business satisfy the criteria for satisfaction of the performance obligation over time because, in each case, assets are created that do not have any alternative possible applications, and the RATH Group thus has the right to consideration and payment of the performance already provided. Project business and agreements can be found in essentially all business lines in the RATH Group: Metals, Fuels, Chemicals & Energy, Special Furnaces, Ceramic, Domestic Fireplaces, and Glass. Each of the contractual agreements is essentially designed such that the right to consideration (including a margin) and payment is granted depending on the stage of completion of the particular assets, and therefore no material impacts arise from the initial application of IFRS 15 as of January1, 2018. To the greatest extent possible, services are offered and provided in combination with the sale of products and goods, whereby here too, the revenues are recognized in accordance with the degree of processing or completion. Here, IFRS 15 continues to provide for the recognition of revenue over time because the future benefits for the customer from the service received flow to the customer during the provision of such services. Therefore, no changes arise in the course of initial application of IFRS 15.

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" contains requirements for recognition and measurement, impairment and derecognition, and general hedge accounting, and handles the classification and measurement of financial assets and financial liabilities, hedge accounting, as well as the impairment of financial assets. IFRS 9 is applicable for fiscal years beginning on or after January 1, 2019. The RATH Group will apply the new IFRS 9 standard for the first time as of January 1, 2018.

Classification

Compared with the previous IAS 39 standard, IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are held, and in addition, the cash flow characteristics of the financial assets. In accordance with IFRS 9, financial assets can be divided into three main categories: measured at amortized cost, measured at fair value with remeasurement gains or losses in profit or loss for the period (FVTPL), and at fair value with remeasurement gains or losses in other comprehensive income (FVOCI). The standard eliminates the existing categories in IAS 39: held-to-maturity, loans and receivables, and available for sale. The RATH Group holds available-for-sale securities in its portfolio, which are held in the form of shares in investment funds as coverage for the provision for severance pay. These securities (debt instruments) currently held as available for sale with a carrying amount of €730 thousand will hereinafter be recognized at fair value through profit or loss. The amount of €-23 thousand held in the reserve for available for sale as of December 31, 2017, will be transferred within equity to retained earnings. The classification of the RATH Group's financial liabilities remains unchanged under IFRS 9. The contractual cash flows of the primary financial instruments are predominantly from principal payments and interest.

Impairment of financial assets

IFRS 9 replaces the incurred-loss model of IAS 39 with the forward-looking expected loss model. The new model is applicable to financial assets that are measured at amortized cost or fair values in other comprehensive income (FVOCI), with the exception of equity instruments. In accordance with IFRS 9, an impairment must be calculated using either the 12-month model, in which expected losses from possible defaults within the next 12 months are accounted for, or using the lifetime model, in which the expected losses from possible defaults during the entire lifetime are accounted for. Measurement pursuant to the concept of lifetime defaults is applicable if the credit risk of a financial asset as of the reporting date has increased significantly since initial recognition. Otherwise, measurement pursuant to the concept of 12-month losses must be applied. An entity can determine that the credit risk of a financial asset has not significantly increased if the asset exhibits a low credit risk as of the reporting date. The lifetime model is applicable to all trade receivables in any case. In the RATH Group, trade receivables are measured nationally and internationally on the one hand at the level of the individual customer receivable based on the past due status, and on the other hand by recognizing a specific valuation allowance when there are indications (for example bankruptcy) [of an expected loss], whereby the recoverability of the individual receivables with respect to possible default rates is subjected to regular critical assessment based on the expectations of the responsible management. The new forward-looking adjustment model introduced by IFRS 9 is based on expected losses. The Company determines the adjustment based on an analysis of estimated defaults using actual historical values for defaults occurred in recent years, while also considering forward-looking information. The Group assumes that the need to recognize an impairment will basically not change significantly. The application of the new adjustment rules will presumably result in a reduction of the loss allowance on a scale of €150 thousand.

The application of the new adjustment rules to bank balances willl not result in significant recognizable adjustment amounts due to the maturity (due daily, up to three months).

Hedge accounting

IFRS 9 contains new supplementary requirements for hedge accounting that are intended to be more strongly embedded in the risk management strategy and practice in the day-to-day business. Accordingly, all provisions of IFRS 9 are applicable prospectively to all new hedge agreements and hedge accounting (cash flow hedges), generally for interest rate and foreign currency hedges. The RATH Group currently has an interest rate swap in the portfolio that serves an an economic hedge of a variable interest liability for which, however, hedge accounting pursuant to IAS 39 is not applied. IFRS 9 will not be applied for hedge accounting in relation to the existing portfolio. Therefore, no changes or adjustments arise from the initial application of IFRS 9 as of January 1, 2018.

Transition

Changes in accounting policies due to the application of IFRS 9 will generally be applied retrospectively. The Company will exercise the option not to adjust comparative figures for previous periods with respect to the changes in classification and measurement (including impairments). Differences between the carrying amounts of financial assets and financial liabilities due to the application of IFRS 9 will generally be recognized in retained earnings as of January 1, 2018.

The following assessments must be made based on the facts and circumstances prevailing on the date of initial application: determination of the business model in connection with which a financial asset is held.

IFRS 16 "Leases"

IFRS 16 "Leases", which replaces the IAS 17 standard "Leases", provides a new rule when accounting for leases. Under the new rule, all leases at the lessee as well as related contractual rights and obligations must be recognized in the balance sheet as an asset (right of use to the underlying asset, which normally corresponds to the present value of the future lease payments plus directly allocable costs) on the one hand, and as lease liabilities (for the obligation to make future lease payments) on the other hand. The previous distinction required under IAS 17 between finance and operating leases is thus eliminated for the lessee going forward. IFRS 16 is applicable for fiscal years beginning on or after January 1, 2019. Possible material effects on the consolidated financial statements could be new recognitions of assets and liabilities for operating leases and tenancies of office, production, and warehouse buildings, which generally result in an increase in total assets and an increase of net financial debt as of the date of initial application. The RATH Group has conducted an initial assessment of the possible impacts on the consolidated financial statements; a detailed assessment is not yet completed. The RATH Group will recognize new assets and liabilities for operating leases for buildings and other property, plant and equipment. The actual impacts from the application of IFRS 16 on the consolidated financial statements as of the date of initial application will depend on future economic conditions, such as the interest rate on January 1, 2019, the composition of the lease portfolio at that time, the RATH Group's estimate of the exercise of extension options and the scope and utilization of exceptions and recognition exemptions. As of December 31, 2017, the future minimum lease payments (rental payments) for non-cancelable operating leases (on an undiscounted basis) amounted to €2,905 thousand (see Note 4.2.). The RATH Group expects that the application of IFRS 16 will not have any impacts on its ability to satisfy existing loan conditions.

As a result of the application of the new standard, the type of expenses that are related to these leases will change because IFRS 16 replaces the straight-line expenses for operating leases with an amortization expense for right-of-use assets and interest expense for liabilities from the lease.

No material effects on finance leases are expected.

The RATH Group will implement IFRS 16 as of January 1, 2019, and apply the modified retrospective approach. This approach provides for the recognition of the cumulative effect from retrospective application on the date of initial application of the new standard as an adjusting entry in the opening balance in an appropriate line item directly to equity. The comparative figures from previous periods will not be revised.

2.3. BASIS OF CONSOLIDATION AND CONSOLIDATION METHODS

The parent company is RATH AG, Vienna. All entities that are controlled by the parent are included in consolidated financial statements. An investor controls an investee if it has the power of disposal over the investee, is exposed to or has rights to variable returns from its involvement in the investee, and has the ability to use its power over the investee in such a way that it affects the amount of the investee's returns. A subsidiary is included beginning on the date control is obtained and ends when control is lost.

A subsidiary is initially included using the acquisition method by allocating the purchase cost to the identifiable assets and liabilities belonging to the purchased entity. The amount of the cost exceeding the fair value of this net asset is recognized as goodwill. If the fair value of the net assets acquired exceeds the cost, RATH AG recognizes the excess amount through profit or loss after another critical evaluation of the recognizability and measurement of the assets and liabilities acquired. Acquisition-related costs are recognized as an expense if incurred. The RATH Group decides on an individual basis for each acquisition whether the non-controlling interest in the acquired entity will be recognized at fair value or based on the proportionate share in the net assets of the acquired entity.

There were no acquisitions in the 2017 and 2016 fiscal years.

Intercompany transactions, receivables, liabilities, and unrealized gains and/or losses (intercompany profits and losses) are eliminated.

Transactions with non-controlling shareholders are treated as transactions with equity owners of the Group. A difference between the consideration paid and the respective interest in the carrying amount of the subsidiary arising from the acquisition of a non-controlling interest is recognized in equity. Gains and losses arising on the disposal of non-controlling interests are also recognized in equity.

In addition to RATH AG, the basis of consolidation includes the following entities:

	GROUP'S INTEREST IN %		INCLUSION METHOD
	2017	2016	
Chamottewaren- und Thonöfenfabrik Aug. Rath jun. GmbH	99.98%	99.98%	Consolidation
RATH GmbH, Germany	100%	100%	Consolidation
RATH Hungaria Kft., Hungary	100%	100%	Consolidation
RATH Inc., Newark, NJ, USA	100%	100%	Consolidation
RATH Zarotechnika spol. s r.o., Czech Republic	100%	100%	Consolidation
RATH Polska Sp. z o.o., Poland	100%	100%	Consolidation
RATH Ukraine TOW, Ukraine	100%	100%	Consolidation
RATH Group srl., Mexico	100%	100%	Consolidation
RATH Filtration GmbH, Austria	100%	100%	Consolidation

2.4. CURRENCY TRANSLATION

Business transactions in foreign currency

The functional currencies of the financial statements of the individual Group companies correspond to the local currencies.

The individual Group companies record transactions in foreign currency using the mean exchange rate on the day of the particular transaction. Monetary assets and liabilities denominated in local currency existing as of the reporting date are translated using the exchange rate applicable on the posting date. Resulting foreign currency gains and losses are recognized through profit or loss during the fiscal year.

Translation of annual financial statements in foreign currency

The consolidated financial statements are prepared in euros, which is the reporting currency of RATH AG. The functional currency of subsidiaries located outside the eurozone is the respective local currency. All assets, including goodwill, and liabilities reported in the annual financial statements of these entities are translated using the mean exchange rate as of the reporting date. The income statement items are translated using the average monthly mean exchange rate for the fiscal year. All resulting translation differences are recognized as a separate item in the statement of comprehensive income ("Currency translation differences") as part of other comprehensive income.

The following exchange rates are material for the consolidated financial statements:

	CLOSING RATE 12/31/2017	CLOSING RATE 12/31/2016	AVERAGE RATE 1/1/-12/31/2017	AVERAGE RATE 1/1/-12/31/2016
USD	1.199	1.054	1.130	1.107
HUF	310.330	309.830	309.193	311.438
CZK	25.535	27.021	26.326	27.034
PLN	4.177	4.410	4.257	4.363

Equals €1.00

Source: Austrian National Bank (www.oenb.at)

2.5. ACCOUNTING POLICIES

a) Intangible assets

Individually acquired intangible assets are measured at cost upon initial recognition. Cost includes all expenses that were incurred in order to put the asset in its current condition. The cost of an intangible asset that was acquired as part of a business combination corresponds to its fair value at the acquisition date.

After initial recognition, intangible assets are recognized at cost less accumulated amortization and impairment losses. Amortization is taken on a straight-line basis over an estimated useful life of 3 to 15 years. There are no intangible assets with an indefinite useful life.

Gains or losses from disposals of intangible assets are determined as the difference between the sales proceeds and the carrying amounts of the intangible assets and recognized in profit or loss in the line items "Other operating income" or "Other operating expenses". Development expenditures are only capitalized if the development costs can be reliably measured, the product or process is technically feasible and marketable, future economic benefits are likely, and the Group both intends and has the resources to complete the development and use or sell the asset. Capitalized development expenses are measured at cost less accumulated amortization and accumulated impairment losses. No development costs were capitalized in fiscal years 2017 and 2016.

b) Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Cost includes all expenses that were incurred in order to put the asset in its current location and condition. The cost of internally generated assets includes the expenses directly attributable to production. Borrowing costs are recognized if they can be attributed to a qualifying asset. No borrowing costs were recognized in the reporting period, as there were no qualifying assets.

Costs incurred for an asset in future periods are only capitalized if it is likely that future economic benefits will flow to the RATH Group and the costs can be reliably ascertained.

Intangible assets and depreciable property, plant and equipment are amortized/depreciated on a straight-line basis over the expected useful life of the respective asset. The residual carrying amounts and economic lives are reviewed on each reporting date and adjusted as necessary. The following useful lives were assumed for the determination of the depreciation rates:

	USEFUL LIFE IN YEARS	
Buildings	10	to 35
Machines	10	to 25
Office equipment	3	to 15

Gains or losses from disposals of property, plant and equipment are determined as the difference between the sales proceeds and the carrying amounts of the property, plant or equipment and recognized in profit or loss in the line items "Other operating income" or "Other operating expenses".

c) Leased assets

Leases for which substantially all the risks and rewards incidental to ownership of an asset are transferred to the RATH Group as the lessee are classified as finance leases. Otherwise, they are treated as operating leases in which the RATH Group generally recognizes the lease payments to be paid as the lessee as an expense over the term of the lease. Property, plant and equipment acquired in the course of finance leases is recognized at fair value or the lower present value of the minimum lease payments at the inception of the lease less depreciation and impairment losses.

If substantially all the risks and rewards incidental to ownership are attributable to the RATH Group as the lessor, the asset is classified is accounted for by the RATH Group. The leased asset is recognized based on the rules applicable to the asset in accordance with IAS 16. The lease payments are realized over the term of the lease in profit or loss. Leases for which the RATH Group as the lessor transfers substantially all the risks and rewards incidental to ownership of an asset are to be classified as finance leases. Lease receivables are recognized in the amount of the net investment in the lease.

The capitalized assets are offset in each case by the present value of the liability from the lease payments outstanding as of the reporting date. Every lease payment is divided into an interest portion and a principal portion. The interest portion of the lease payment is recognized as an expense in profit or loss.

d) Government grants

Government grants for expenses are recognized as other operating income in the period in which the corresponding expenses are incurred, unless the inflow of the grant depends on compliance with conditions that have not been satisfied with sufficient probability.

Investment grants are recognized under liabilities as of the date of the binding commitment and realized in profit or loss in proportion to the depreciation of the underlying asset.

e) Financial assets

Financial assets are divided into the following categories: Loans and receivables and financial assets available for sale. The classification depends on the purpose for which each financial asset was acquired. Management determines the classification of the financial assets at the time of initial recognition.

All securities are classified as available for sale. They are measured at fair value, including transaction costs, when they are acquired and at the current fair value in future periods. Changes in value are recognized in other comprehensive income and not shown in profit or loss until they are realized through the sale of the security or in the event of objective indications of impairment. For debt instruments, any reversals of impairments are applied up to the cost through profit or loss.

The fair value of the securities is derived from the quoted price as of the reporting date. The securities are recognized in each case at the settlement date. Loans and receivables are accounted for at amortized cost using the effective interest method.

f) Inventories

Inventories are measured at the lower of cost or net realizable value on the reporting date. Inventories are tested for impairment at regular intervals if the net realizable value on the sales market is lower than the carrying amount of the inventories.

Cost includes all costs associated with acquisition and processing as well as other costs that are incurred in order to put the inventories in their current location and condition. The production cost includes all direct costs as well as systematically allocated variable and fixed overhead costs incurred with the production based on an average utilization of the production equipment. The costs per unit are determined using the moving average price method.

The net realizable value results from the expected sales proceeds less the production and selling costs yet to be incurred determined on the basis of past experience.

g) Trade receivables and other receivables and other assets

Trade receivables and other receivables are accounted for at amortized cost less impairment losses for expected uncollectible amounts. Other assets are measured at cost less impairment losses.

Impairment losses are recognized if the claims are expected to be uncollectible due to customer-specific circumstances. If there are such doubts regarding the collectability of the receivables, the receivables from customers are recognized at the lower realizable amount and the necessary specific valuation allowances are recognized on the basis of identifiable risks. Reasons for this can include identifiable substantial financial difficulties on the part of the contractual partner, insolvency proceedings initiated against the debtor, unsuccessful attempts at dunning and collection, a breach of contract that has already occurred (for example, delinquency or default on payments) or other information that raises doubts as to the solvency of the debtor. The creditworthiness of the debtor is correspondingly taken into account when determining the amount of the impairment losses. The receivable is derecognized as soon as the uncollectibility of the receivable is finally ascertained. The write-downs are taken into account by means of a dedicated allowance account.

Construction contracts are accounted for based on the percentage of completion method provided that the requirements of IAS 11 are satisfied. Under the percentage of completion method, the production costs incurred plus a mark-up corresponding to the percentage of completion are reported under receivables from construction contracts and as sales revenue. As a rule, the percentage of completion is determined in the proportion of the expenses incurred to the expected total expenses. Expected contract losses are covered through provisions that are determined in consideration of the identifiable risks. Advance payments are deducted from the receivables from construction contracts. A resulting negative balance for a construction contract is recognized as a liability from construction contracts.

h) Cash and cash equivalents

Cash and cash equivalents include cash and deposits at banks that are available on demand with a remaining term of up to three months. The line item "Cash and cash equivalents" matches the cash equivalents in the cash flow statement.

i) Impairment

Non-current assets–with the exception of deferred tax assets and financial assets–are tested for indications of impairment as of each reporting date or upon the occurrence of a triggering event.

If there is any such indication, the RATH Group determines the recoverable amount for the asset. This corresponds to the higher of the value in use or fair value less costs of disposal. If the recoverable amount is less than the carrying amount of the asset, an impairment loss is recognized in profit or loss in the amount of this difference.

The asset's value in use corresponds to the present value of the estimated future cash flows from its continued use and its disposal at the end of its useful life based on a typical discount rate before tax adjusted for the asset's specific risk exposure. If a cash flow that is independent of other assets cannot be determined for an individual asset, the value in use is determined for the next-largest unit to which this asset belongs and which generates cash inflows that are largely independent of the cash inflows of other assets (cash generating unit). The RATH Group defines the individual entities as cash generating units.

Fair value less costs of disposal corresponds to the proceeds realizable among unrelated third parties on the market for the affected asset less any incurred selling costs.

If the reason for the impairment should no longer apply in the future, the impairment is reversed through profit or loss up to the lower of the depreciated cost and the recoverable amount.

There were no indications of impairment or a reversal thereof as of the reporting date.

j) Obligations to employees

In the case of defined contribution plans, the Company pays into private pension schemes or pension schemes under public law and employee pension funds based on statutory or contractual obligations. There are no further obligations other than the premium payment. The regular premium payments are recognized as an expense in profit or loss in the respective periods.

All other obligations result from uncovered defined benefit plans and corresponding amounts are recognized as provisions. This obligation is accounted for in accordance with IAS 19 by determining the present value of the defined benefit obligation (DBO). The DBO is determined according to the projected unit credit method (PUC). With this method, the future payments determined on the basis of realistic assumptions are accrued over the period in which the respective beneficiaries acquire these claims. The necessary amount of provisions is calculated for each reporting date by means of expert actuarial appraisals.

The future obligations are measured according to actuarial principles and are based on an appropriate assumption of the discount factor, the factor representing the rate of salary increases, and the factor representing the rate of pension increases. Revaluations—on the basis of assumptions—of the net liability under defined benefit plans, which represent solely actuarial gains and losses in the RATH Group, are recognized in their entirety through other comprehensive income in the year in which they arise (see Consolidated statement of comprehensive income). Thus, as a rule, the provision corresponds to the actual obligation as of the respective reporting date.

The subsequent recognition of any past service cost is recognized immediately in profit or loss. The actuarial gains and losses for provisions for anniversary bonuses are recognized immediately in profit or loss. The actuarial gains and losses for provisions for severance pay and pension provisions are recognized in other comprehensive income. For the provisions for severance pay, the service cost is allocated over the period in which the maximum severance claim is reached.

k) Provisions

Provisions are recognized if the RATH Group has a legal or constructive obligation to a third party based on a past event and it is likely that this obligation will lead to an outflow of resources and the amount of the obligation can be measured reliably. If there are dismantling obligations with respect to equipment at the end of its useful life, the expenses are recognized as a provision for disposal costs and capitalized as part of the cost of the equipment. The provisions are recognized in the amount that represents the best possible estimate of the disbursement required to settle the obligation. If the present value of the provision determined on the basis of a typical market interest rate differs significantly from the nominal value, the present value of the obligation is recognized.

l) Taxes

The effective tax burden includes the current and deferred taxes. For transactions recognized directly in equity or in other comprehensive income, the associated income tax is also recognized directly in equity or in other comprehensive income. The current tax for the individual companies of the RATH Group is calculated from the company's taxable income and the tax rate applicable in the respective country.

Deferred taxes are determined using the liability method for all temporary differences between the carrying amounts of assets and liabilities in the IFRS consolidated financial statements and the existing tax bases at the individual companies. Furthermore, the tax benefit from existing loss carryforwards likely to be realized is included in the calculation.

Differences from non-tax-deductible goodwill and temporary differences associated with equity investments represent an exception from this comprehensive tax deferral. Deferred tax assets are not recognized if the inherent tax benefit is not likely to be realized. The determination of deferred taxes was based on a tax rate of 25% in Austria, 31% in Germany, 9% in Hungary, and 29% in the USA.

m) Financial liabilities

Financial liabilities are recognized in the amount actually received less transaction costs. A premium, discount or other difference between the received amount and the repayment amount is realized proportionately over the term of the financing using the effective interest rate method and reported in the financial result (amortized cost).

n) Trade payables and other liabilities

Trade payables are measured when the liability arises in the amount of the fair value of the goods or services received. These liabilities are subsequently measured at amortized cost. Other liabilities not resulting from goods or services are recognized at their settlement amount.

o) Derivative financial instruments
The RATH Group currently uses only interest rate swaps in order to minimize existing risks from changes in interest rates. The fair value for interest rate swaps corresponds to the value that the RATH Group would receive or would have to pay if the transaction were unwound on the reporting date. Current market conditions, in particular the current interest rate level, are factored into this calculation. Fluctuations in value are recognized in profit or loss.

The rules set forth in IAS 39 governing the accounting treatment of hedges are not applied.

p) Recognition of sales revenue
Income from deliveries (transactions in goods) is realized when all significant risks and rewards associated with the delivered item are transferred to the buyer. Income from services not related to a construction contract is recognized in proportion to the services rendered up to the reporting date.

With respect to construction projects (project business), if the project's net earnings can be reliably estimated, the income and project costs are recognized respectively as sales revenue and the corresponding expense items according to the percentage of completion on the reporting date. An expected loss from the construction contract is recognized immediately as an expense in its entirety.

q) Financing costs and financial income
Financial expenses include the interest accrued for borrowed funds and finance leases, expenses and fees similar to interest, exchange rate gains and losses related to the financing and hedging results as well as permanent impairment losses on available-for-sale securities.

Financial income includes the interest realized from the investment of financial resources, dividends and similar income. Interest is accrued based on the lapse of time using the effective interest method. Dividends are realized when the resolution to distribute dividends is adopted.

r) Uncertainty with respect to discretionary estimates and assumptions
The preparation of consolidated financial statements in accordance with IFRS requires discretionary estimates and determination of assumptions regarding future developments by the management that can have a significant influence on the recognition and value of assets and liabilities, the disclosure of other obligations on the reporting date, and the presentation of income and expenses during the year. Estimates are regularly carried out for off-balance sheet obligations, sureties, guarantees and other contingent liabilities regarding whether they are to be recognized in the financial statements. The estimates and underlying assumptions are continuously reviewed. The actual values can differ from the assumptions and estimates if the general conditions referred to develop contrary to expectations at the reporting date. Changes are recognized in profit or loss and the premisses are adjusted accordingly when better information is obtained.

For the following assumptions, there is a substantial risk that they could lead to a material adjustment of assets and liabilities in the next fiscal year:

› The recognition of deferred tax assets is based on the assumption that sufficient taxable income will be generated in the future in order to utilize existing loss carry forwards.

› For the measurement of existing pension and severance payment obligations, assumptions are used regarding the discount rate, retirement age, life expectancy, employee turnover, and future salary increases. The Group determines the appropriate discount rate at the end of each year. The Group bases its determination of the discount rate on the interest rate of top-rated corporate bonds denominated in the currencies in which the payments are made and whose terms correspond to those of the pension and severance obligations.

› Valuation allowances for inventories are carried out based on the storage period; valuation allowances are applied to those inventories that are not expected to be sold within one year (up to 100%) (see Note 3 (4)).

- Accounting treatment of financial instruments: As a result of the amendment and introduction of a more robust forward-looking impairment model (expected credit loss model) with the new version of IFRS 9, the increased complexity, increased requirements for estimates and discretionary decisions, in particular with respect to the scope of application for the impairment rules, for the determination of a significant increase in credit risk, for the measurement of expected credit losses, and for the utilization of appropriate and reliable information and data can lead to changes in the future.

- Estimates are carried out with respect to the useful life (remaining useful life) for the review of the useful lives of property, plant and equipment. The useful lives can be shortened or lengthened in the yearly review of useful lives. This applies equally for underlying useful lives for potential future significant operating leases under the new standard IFRS 16, under which the lessee must normally recognize a right of use asset and a corresponding liability in any event.

s) Changes in accounting-related estimates and misstatements

Misstatements from previous periods are amended retroactively. The consolidated financial statements are presented with all prior-year figures as if the misstatement from previous periods had never occurred. Changes in accounting-related estimates are to be applied prospectively.

3. EXPLANATORY INFORMATION ON THE ITEMS OF THE BALANCE SHEET AND INCOME STATEMENT

(1) Property, plant and equipment

	LAND € '000	BUILDINGS (INCL. BUILDINGS ON THIRD-PARTY LAND) € '000	TECHNICAL EQUIPMENT € '000	OTHER EQUIPMENT AND OFFICE EQUIPMENT € '000	EQUIPMENT FROM FINANCE LEASES € '000	PREPAYMENTS/ ASSETS UNDER CONSTRUCTION € '000	TOTAL € '000
Cost							
Balance on 1/1/2016	467	23,816	77,205	17,396	5,089	600	124,573
Additions	0	173	2,362	661	0	2,433	5,629
Disposals	0	0	-55	-172	0	-18	-244
Reclassifications	0	0	586	93	-284	-444	-50
Exchange rate changes	9	174	559	86	109	8	944
Balance on 12/31/2016	**475**	**24,164**	**80,657**	**18,064**	**4,913**	**2,578**	**130,851**
Additions	0	592	3,351	754	0	977	5,673
Disposals	0	0	2	-79	0	0	-77
Reclassifications	0	115	2,676	9	-250	-2,564	-14
Exchange rate changes	-9	-450	-1,693	-320	-381	-1	-2,853
Balance on 12/31/2017	**466**	**24,420**	**84,993**	**18,427**	**4,282**	**991**	**133,580**
Accumulated amortization, write-downs and impairment losses							
Balance on 1/1/2016	-1	-13,568	-63,233	-10,480	-2,237	0	-89,519
Additions	0	-632	-2,689	-586	-117	0	-4,024
Impairment losses	0	0	0	0	0	0	0
Reversals of impairment losses	0	0	0	0	0	0	0
Disposals	0	0	55	169	0	0	224
Reclassifications	0	0	0	0	0	0	0
Exchange rate changes	0	-51	-418	-25	-49	0	-543
Balance on 12/31/2016	**-1**	**-14,251**	**-66,286**	**-10,922**	**-2,404**	**0**	**-93,863**
Additions	0	-641	-2,723	-540	-156	0	-4,061
Impairment losses	0	0	0	0	0	0	0
Reversals of impairment losses	0	0	0	0	0	0	0
Disposals	0	0	-7	79	0	0	72
Reclassifications	0	0	0	0	0	0	0
Exchange rate changes	0	118	1,219	50	190	0	1,576
Balance on 12/31/2017	**-1**	**-14,774**	**-67,797**	**-11,333**	**-2,370**	**0**	**-96,276**
Carrying amount on 1/1/2016	**466**	**10,248**	**13,972**	**6,916**	**2,851**	**600**	**35,053**
Carrying amount on 12/31/2016	**474**	**9,913**	**14,372**	**7,142**	**2,510**	**2,578**	**36,988**
Carrying amount on 12/31/2017	**465**	**9,646**	**17,196**	**7,094**	**1,912**	**991**	**37,304**

The line item depreciation does not include any impairment losses from 2017 or 2016.

As of December 31, 2017, the purchase commitment for plant and equipment amounted to €1,079 thousand (previous year: €416 thousand).

(2) Intangible assets

	SOFTWARE € '000	OTHER RIGHTS € '000	INTERNALLY DEVELOPED SOFTWARE € '000	TOTAL € '000
Cost				
Balance on 1/1/2016	1,804	174	249	2,227
Additions	69	0	0	69
Disposals	-74	0	0	-74
Reclassifications	-151	0	150	-1
Exchange rate changes	15	0	0	15
Balance on 12/31/2016	**1,663**	**174**	**399**	**2,237**
Additions	27	0	66	93
Disposals	0	0	0	0
Reclassifications	14	0	0	14
Exchange rate changes	-38	0	0	-39
Balance on 12/31/2017	**1,666**	**174**	**465**	**2,305**
Accumulated amortization, write-downs and impairment losses				
Balance on 1/1/2016	-1,533	-173	-94	-1,800
Additions	-60	0	-41	-100
Impairment losses	0	0	0	0
Reversals of impairment losses	0	0	0	0
Disposals	74	0	0	74
Reclassifications	75	0	-75	0
Exchange rate changes	-11	0	0	-11
Balance on 12/31/2016	**-1,455**	**-173**	**-210**	**-1,838**
Additions	-58	0	-38	-97
Impairment losses	0	0	0	0
Reversals of impairment losses	0	0	0	0
Disposals	0	0	0	0
Reclassifications	0	0	0	0
Exchange rate changes	26	0	0	26
Balance on 12/31/2017	**-1,488**	**-173**	**-248**	**-1,909**
Carrying amount on 1/1/2016	**271**	**0**	**155**	**426**
Carrying amount on 12/31/2016	**208**	**0**	**190**	**398**
Carrying amount on 12/31/2017	**177**	**0**	**218**	**395**

(2) Intangible assets

	SOFTWARE € '000	OTHER RIGHTS € '000	INTERNALLY DEVELOPED SOFTWARE € '000	TOTAL € '000
Cost				
Balance on 1/1/2016	1,804	174	249	2,227
Additions	69	0	0	69
Disposals	-74	0	0	-74
Reclassifications	-151	0	150	-1
Exchange rate changes	15	0	0	15
Balance on 12/31/2016	**1,663**	**174**	**399**	**2,237**
Additions	27	0	66	93
Disposals	0	0	0	0
Reclassifications	14	0	0	14
Exchange rate changes	-38	0	0	-39
Balance on 12/31/2017	**1,666**	**174**	**465**	**2,305**
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Balance on 1/1/2016	-1,533	-173	-94	-1,800
Additions	-60	0	-41	-100
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Reversals of impairment losses	0	0	0	0
Disposals	74	0	0	74
Reclassifications	75	0	-75	0
Exchange rate changes	-11	0	0	-11
Balance on 12/31/2016	**-1,455**	**-173**	**-210**	**-1,838**
Additions	-58	0	-38	-97
Impairment losses	0	0	0	0
Reversals of impairment losses	0	0	0	0
Disposals	0	0	0	0
Reclassifications	0	0	0	0
Exchange rate changes	26	0	0	26
Balance on 12/31/2017	**-1,488**	**-173**	**-248**	**-1,909**
Carrying amount on 1/1/2016	**271**	**0**	**155**	**426**
Carrying amount on 12/31/2016	**208**	**0**	**190**	**398**
Carrying amount on 12/31/2017	**177**	**0**	**218**	**395**

(3) Financial assets

The financial assets are securities classified as available-for-sale within the meaning of IAS 39. They include co-ownership shares in three investment funds and serve exclusively to cover the provisions for severance pay in accordance with the provisions of sections 14 and 116 of the Austrian Income Tax Act (öEStG). They are measured at fair value. Changes in the fair value are recognized in other comprehensive income.

	CARRYING AMOUNT 12/31/2017 € '000	CARRYING AMOUNT 12/31/2016 € '000
Securities available for sale	730	735
	730	**735**

(4) Inventories

	12/31/2017 € '000	12/31/2016 € '000
Raw materials, consumables and supplies	3,338	2,942
Finished products	12,087	11,357
Other inventories	4,084	5,260
Merchandise	2,030	2,413
Valuation allowances on inventories	-696	-589
	20,843	**21,382**

The RATH Group tests its inventories periodically for impairment and compares them with the recoverable net realizable value on the sales market; if necessary, a write-down to the net realizable value is recognized through profit or loss. The inventories were tested for impairment in 2017 and €119 thousand (previous year: €21 thousand) was recognized as an expense as a result of write-downs to the net realizable value.

(5) Trade receivables

	12/31/2017 € '000	12/31/2016 € '000
Trade receivables	16,915	17,578
Receivables from contract manufacturing	0	879
Valuation allowances	-1,039	-699
	15,876	**17,758**
of which non-current	**0**	**0**

The valuation allowances developed as follows:

	12/31/2017 € '000	12/31/2016 € '000
Balance on 1/1	699	442
Utilization	6	0
Reversals	-7	-32
Allocations	356	292
Currency translation	-15	0
Effect from deconsolidation	0	-3
Balance on 12/31	**1,039**	**699**

As of the reporting date, there were no long-term contracts that needed to be measured according to the percentage of completion method (PoC) (previous year: €879 thousand). The contract costs amounted to €0 thousand (previous year: €579 thousand).

(6) Other receivables and prepaid expenses

	12/31/2017 € '000	12/31/2016 € '000
Other receivables advance payments	179	502
Receivables from associated companies	0	0
Receivables from other long-term investees and investors	0	0
Financial assets	**179**	**502**
Receivables local tax office and social security contributions	764	1,223
Misc. other receivables	309	215
Other non-financial receivables	**1,072**	**1,438**
Deferred income	349	349
Total	**1,600**	**2,289**

(7) Cash and cash equivalents

	12/31/2017 € '000	12/31/2016 € '000
Cash-in-hand	22	20
Deposits at banks	19,547	3,507
	19,569	**3,527**

Deposits at banks are freely disposable.

(8) Equity

As in the previous year, RATH AG's nominal capital is presented in the amount of €10,905 thousand as share capital. It comprises 1,500,000 no-par-value shares. The shares are fully paid-in.

The appropriated capital reserves shown in RATH AG's annual financial statements as of December 31, 2017, in the amount of €1,118 thousand (previous year: €1,118 thousand) may only be reversed to offset net accumulated losses that would otherwise have to be reported in the parent company's annual financial statements.

The unappropriated reserves can be attributed to the profits and losses generated in the Group and carried forward. The other reserves include other comprehensive income generated, excluding currency translation differences, which are shown in a separate reserve (Differences in currency translation).

The dividends are based on the net retained profits shown in the annual financial statements of the parent company prepared in accordance with Austrian commercial law (UGB). As of December 31, 2017, RATH AG shows net retained profits of €9,223 thousand. Due to the solid consolidated earnings of 2017 and the stable outlook for fiscal year 2018, the Executive Board will recommend a dividend distribution of €0.75 per no-par value share to the upcoming Annual General Meeting.

The interest of non-controlling shareholders in the equity relates to Chamottewaren- und Thonöfenfabrik Aug. RATH jun. GmbH, Austria, and is immaterial.

(9) Commitments to employees

Pension obligations

The pension obligation is based on individual contractual commitments to pay pension benefits to a total of two pensioners/senior executives in Austria after they retire.

Severance payment obligations

As a result of statutory provisions, the RATH Group is obligated to make a severance payment to all employees in Austria whose employment began prior to January 1, 2003, if they are dismissed by their employer or when they retire. This severance payment depends on the number of years of service and the relevant salary at the time of the severance and amounts to between two and twelve monthly salaries. Effective December 31, 2002, the option to freeze all existing severance packages and to transfer all employees to the new "Employee Severance Fund" system was exercised. A provision was recognized for this frozen commitment.

For all Austrian employment relationships in good standing after December 31, 2002, the RATH Group pays 1.53% of the salary per month into an employee severance fund starting with the second month of employment; the contributions are invested in the employee's account and paid out to the employee when the employment relationship ends or forwarded as a claim. The RATH Group is only obligated to pay the contributions (see Note 18). Therefore, no provisions are recognized for this defined contribution scheme.

Provisions for anniversary bonuses

As a result of statutory provisions, the RATH Group is obligated to pay anniversary bonuses in the amount of 1 to 3 monthly salaries to all employees in Austria that have exceeded a specified period of service.

Calculation parameters for commitments to employees

The calculations for commitments to employees as of December 31, 2017, and December 31, 2016, are based on the following parameters:

	2017	2016
Discount rate	2.00%	1.80%
Salary increases	2.50%	2.00%
Pension increases	1.75%	1.75%
Mortality rates	AVÖ 2008-P	AVÖ 2008-P

The retirement age for old-age pensions for women will be gradually increased from 60 to 65 years as a result of the Austrian Constitutional Law on Differing Retirement Ages (BVG). Starting in 2033, the entry age for both men and women will be 65 years.

	2017 € '000	2016 € '000
Provision for severance pay	787	783
Provision for pensions	2,113	2,096
Provision for anniversary bonuses	291	277
	3,192	**3,155**

Developments of the provisions recognized in the statement of financial position (DBO)	PROVISION FOR SEVERANCE PAY 2017 € '000	PROVISION FOR SEVERANCE PAY 2016 € '000	PROVISION FOR PENSIONS 2017 € '000	PROVISION FOR PENSIONS 2016 € '000	PROVISION FOR ANNIVERSARY BONUSES 2017 € '000	PROVISION FOR ANNIVERSARY BONUSES 2016 € '000
Present value provision (DBO) on 1/1	**783**	**712**	**2,096**	**2,189**	**277**	**215**
Service cost	27	27	0	0	20	56
Interest cost	14	14	35	42	5	0
Recognized in profit or loss	**40**	**41**	**35**	**42**	**25**	**56**
Actuarial gains/losses						
From experience adjustments	1	16	266	29	10	0
From changes in demographic assumptions	0	0	0	0	0	0
From changes in financial assumptions	18	13	-30	30	-10	0
Recognized in other comprehensive income	**19**	**29**	**236**	**59**	**0**	**0**
Disbursements	-54	-13	-200	-195	-12	0
Other changes	0	13	-54	0	2	5
Present value provision (DBO) on 12/31	**787**	**783**	**2,113**	**2,096**	**291**	**277**

Expected benefits for the following year 2018 can be broken down as follows:

PROVISION FOR SEVERANCE PAY € '000	PROVISION FOR PENSIONS € '000	PROVISION FOR ANNIVERSARY BONUSES € '000
133	200	21

For the RATH Group, the risk for pension claims lies mainly in the development of life expectancy and inflation, since the payments under these pension plans represent lifelong benefits. Otherwise, there are no (extraordinary) risks. With respect to severance claims and anniversary claims, the risk lies mainly in the development of inflation and increases in salary.

Effect change interest rate	INCREASE OF 0.5 PERCENTAGE POINTS € '000	REDUCTION OF 0.5 PERCENTAGE POINTS € '000
Change in provision for severance pay	-33	31
Change in provision for pensions	-72	77
Change in provision for anniversary bonuses	-24	10

Effect change increase in salary	INCREASE OF 0.5 PERCENTAGE POINTS € '000	REDUCTION OF 0.5 PERCENTAGE POINTS € '000
Change in provision for severance pay	31	-30
Change in provision for pensions	77	-73
Change in provision for anniversary bonuses	13	-22

Payments to pension beneficiaries amount to €200 thousand in the fiscal year (previous year: €195 thousand).

The weighted duration of the pension commitment amounts to 6.32 years (previous year: 6.68), of the severance obligation 8.71 years (previous year: 9.75) and of the anniversary bonuses 18.15 years (previous year: 13.32).

(10) Financial liabilities

	12/31/2017			12/31/2016		
	NON-CURRENT € '000	CURRENT € '000	TOTAL € '000	NON-CURRENT € '000	CURRENT € '000	TOTAL € '000
Liabilities to banks						
Overdraft facility	4,000	0	4,000	6,000	15,517	21,517
Export loan	0	0	0	0	3,963	3,963
Capital project loans	35,038	152	35,190	189	524	713
Liabilities to other creditors						
Finance leases	996	264	1,260	1,244	290	1,534
	40,034	**416**	**40,449**	**7,433**	**20,295**	**27,728**

The maturities of financial liabilities are presented under Note 4.1. Liquidity risk.

The key terms and conditions of financial liabilities are presented below:

TYPE OF FINANCING	CURRENCY	CARRYING AMOUNT ON 12/31/2017 € '000	EFFECTIVE INTEREST RATE 2017 %	CURRENCY	CARRYING AMOUNT ON 12/31/2017 € '000	EFFECTIVE INTEREST RATE 2016 %	INTEREST FIXED/ VARIABLE	DUE IN
Overdraft facility	EUR	0	0	EUR	14,125	1.50-2.38	variable	< 1 year
Overdraft facility	USD	0	0	USD	1,392	3.75	variable	< 1 year
Overdraft facility	EUR	4,000	1.50-1.90	EUR	6,000	1.50-1.90	variable	> 1 year
Export loan	EUR	0	0	EUR	3,963	0.50	variable	< 1 year
Capital project loans	EUR	0	0	EUR	714	0-5.00	fixed/variable	> 1 year
Capital project loans	EUR	35,189	1.35-5.01	USD	0	0	variable	> 1 year
Finance leases	EUR	822	3.15	EUR	898	3.15	variable	> 1 year
Finance leases	USD	437	3.70-6.65	USD	636	3.70-6.65	fixed	> 1 year
		40,449			**27,728**			

There is an interest rate swap for some of the variable-interest-rate loans–more details are presented under Note 3 (15) and Note 4.1.

With respect to fair values, please refer to the table "Fair values" in the section "Other disclosures" under 4.1 Financial liabilities. The fair values are determined as the present value of the expected cash flows. The calculation is based on a risk-appropriate discount rate.

(11) Provisions

	PERSONNEL € '000	OTHER € '000	TOTAL € '000
Balance on 12/31/2016	**565**	**185**	**750**
Addition	586	134	719
Utilization	-550	-147	-697
Reversals	0	0	0
Currency translation	-2	0	-2
Balance on 12/31/2017	**598**	**172**	**770**

Provisions for personnel expenses include mainly provisions for bonuses and provisions for the statutory accident insurance. Other provisions comprise provisions for legal and advisory costs, and provisions for Supervisory Board remuneration as well as contingent liabilities.

All provisions shown in the table above are current.

(12) Taxes on income

The tax expense comprises the following:

	2017 € '000	2016 € '000
Corporate income tax for the fiscal year (current taxes)	921	812
Deferred taxes	-401	-52
	520	**760**

Temporary differences between the carrying amounts in the IFRS consolidated financial statements and the respective tax bases have the following impact on the deferred taxes stated in the statement of financial position:

	2017 € '000	2016 € '000
Shown in the statement of financial position:		
Deferred tax assets	2,032	1,984
Deferred tax liabilities	-113	-570
Deferred taxes (net)	**1,919**	**1,413**

	12/31/2017 € '000	12/31/2016 € '000
Balance of deferred tax assets and liabilities:		
Deferred tax assets		
Liabilities from leasing transactions	279	225
Provision for personnel expenses IAS 19	1,116	861
Inventories	237	395
Receivables	36	0
Other	91	154
Temporary differences from foreign currency measurement	20	0
Loss carryforwards	3,043	4,082
Subtotal deferred tax assets	**4,822**	**5,716**
Netting	-2,790	-3,733
Deferred tax assets	**2,032**	**1,984**
Deferred tax liabilities		
Temporary differences from contract manufacturing	0	220
Temporary differences in non-current assets	2,029	3,252
Temporary differences from foreign currency measurement	0	217
Provision for personnel expenses IAS 19	873	615
Subtotal deferred tax liabilities	**2,902**	**4,303**
Netting	-2,790	-3,733
Deferred tax liabilities	**113**	**570**
Deferred taxes (net)	**1,919**	**1,413**

Due to currently applicable tax regulations, it can be assumed that the differences between the carrying amount of the investment for tax purposes and the prorata equity of the subsidiaries included in the consolidated financial statements resulting from retained profits will remain essentially tax-free. Therefore, no deferred taxes were recognized.

On December 31, 2017, there were temporary differences related to interest in subsidiaries of €5,164 thousand (previous year: €3,440 thousand). No deferred tax liabilities were recognized for this difference, as the Group can control the reversal of the temporary differences.

There is a tax allocation agreement pursuant to section 9 (8) of the 1988 Corporate Income Tax Act (KStG 1988) (group parent RATH AG, group members: Chamottewaren- und Thonöfenfabrik Aug. RATH jun. GmbH, RATH Filtration GmbH) for the purposes of the group taxation scheme.

Deferred taxes were capitalized on the loss carryforwards in the amount of €11,636 thousand (previous year: €13,317 thousand), since their utilization by way of offsetting against future taxable income is likely based on the existing projections.

No deferred taxes were capitalized on loss carryforwards in the amount of €12,672 thousand (previous year: €13,600 thousand), since as of the reporting date the offsetting against future taxable income of the individual companies is not likely from a current perspective. The losses carried forward are essentially eligible to be carried forward indefinitely.

The causes for the difference between the expected tax burden under application of the Austrian corporate income tax rate of 25% and the reported income tax expense are presented below:

	2017 € '000	2016 € '000
Earnings before taxes	2,891	4,705
Expected tax burden	25%	25%
	723	**1,176**
Tax rate differences	40	-136
Impact due to future changes in tax rates	0	-3
Non-deductible expenses	36	161
Tax privileges and tax-exempt income	-1	-242
Adjustments to taxes from prior periods	-65	-33
Deferred tax assets on losses carried forward recognized for the first time or not recognized	-213	-163
Effective tax burden	**520**	**760**

(13) Trade payables

	31/12/2017 € '000	12/31/2016 € '000
Trade payables	5,970	6,681
	5,970	**6,681**

Trade payables do not include any non-current line items.

(14) Other liabilities

Other liabilities break down as follows:

	12/31/2017 € '000	12/31/2016 € '000
Other liabilities	1,050	943
Derivatives	105	311
Other financial liabilities	**1,155**	**1,254**
of which non-current	0	311
Liabilities taxes	537	336
Liabilities social security contributions	411	370
Advance payments	716	353
Misc. other liabilities	176	192
Deferred income	0	0
Other liabilities	**1,839**	**1,251**
of which non-current	176	192
Accrued and deferred items	**632**	**388**
From vacation claims	613	387
From overtime	19	1
	3,626	**2,893**
of which non-current	**176**	**503**

(15) Derivative financial instruments

Derivative financial instruments comprise an interest rate swap whose economic purpose is the hedging of a liability bearing variable interest, for which, however, hedge accounting in accordance with IAS 39 is not applied. The interest rate swap has a term lasting until 2018 and has now been recognized under current liabilities in line with its term.

	12/31/2017			12/31/2016		
	NOMINAL € '000	REFERENCE VALUE %	FAIR VALUE € '000	NOMINAL € '000	REFERENCE VALUE %	FAIR VALUE € '000
Interest rate swap	4,500	4.35	-105	4,500	4.35	-311
of which non-current			0			-311

(16) Sales revenue and segment reporting

The operating segments are presented by region. The breakdown of the operating segments by region corresponds to RATH Group's internal reporting, which is regularly presented to the primary decision-maker: the Executive Board of RATH AG. Assets and liabilities as well as expenses and income are assigned to the individual operating segments only to the extent that they can be assigned to the respective operating segments directly or by means of a sensible method.

Offsetting between the individual segments is carried out on an arm's-length basis.

The operating segment data is subject to the same accounting policies as the consolidated financial statements and is organized by region.

The operating segments include the following regions:

Austria:	RATH AG, Aug. RATH jun. GmbH, RATH Filtration GmbH
Germany:	RATH GmbH
Hungary:	RATH Hungaria Kft.
USA:	RATH Inc.
Rest:	RATH Zarotechnika, RATH Polska, RATH Ukraina TOW, RATH Group srl., Mexico; RATH SAS, France until 11/30/2016

The segment assets based on geographical markets correspond to those of the operating segments.

Operating segments by region

The sales revenue from project orders included and shown separately in the following two tables includes in particular sales revenue from projects expressly agreed with customers and clearly separable from classic product sales and contractual arrangements as comprehensive solutions comprising multiple components such as the delivery of products and goods on the one hand and associated services such as planning, engineering, assembly, assembly site monitoring, and picking and packing on the other hand.

	AUSTRIA € '000	GERMANY € '000	HUNGARY € '000	USA € '000	REST € '000	CONSOLIDATION € '000	TOTAL € '000
2017							
Merchandise orders	19,679	17,489	6,074	11,827	798	0	55,867
Project orders	5,715	11,701	5,978	2,560	4,490	0	30,444
Intersegment sales	9,432	9,558	4,429	16	287	-23,722	0
Other sales	0	27	0	0	0	0	27
Total	**34,827**	**38,775**	**16,481**	**14,403**	**5,574**	**-23,722**	**86,338**
Net segment income (EBIT)	**2,413**	**2,872**	**754**	**-77**	**207**	**68**	**6,237**
Financial income	3,749	32	47	0	43	-3,387	484
Financial expenses	-2,326	-81	-297	-676	86	-536	-3,831
Financial result	**1,423**	**-50**	**-250**	**-676**	**129**	**-3,924**	**-3,347**
Earnings before taxes (EBT)	**3,836**	**2,823**	**504**	**-754**	**336**	**-3,855**	**2,891**
Income taxes	-285	-815	-55	437	-35	233	-520
Net profit/loss for the year	**3,551**	**2,008**	**450**	**-317**	**302**	**-3,623**	**2,371**
Segment assets	68,166	33,008	12,416	18,787	4,230	-38,258	98,349
Segment liabilities	55,503	5,810	8,047	17,444	2,672	-35,117	54,359
Capital expenditures	1,397	2,752	1,350	286	3	0	5,788
Depreciation, amortization and impairment losses	1,348	1,423	385	961	41	0	4,157

	AUSTRIA €'000	GERMANY €'000	HUNGARY €'000	USA €'000	REST €'000	CONSOLIDATION €'000	TOTAL €'000
2016							
Merchandise orders	21,777	15,663	6,644	13,554	658	0	58,296
Project orders	4,811	12,302	877	84	3,910	0	21,985
Intersegment sales	10,625	8,790	4,007	56	60	-23,538	0
Other sales	0	26	0	0	0	0	26
Total	**37,213**	**36,781**	**11,528**	**13,693**	**4,628**	**-23,538**	**80,306**
Net segment income (EBIT)	**2,463**	**1,680**	**645**	**25**	**278**	**-75**	**5,016**
Financial income	2,841	11	91	320	19	-2,372	910
Financial expenses	-704	-83	-155	-1,244	-109	1,074	-1,221
Financial result	**2,137**	**-72**	**-64**	**-924**	**-90**	**-1,299**	**-311**
Earnings before taxes (EBT)	**4,600**	**1,609**	**581**	**-899**	**189**	**-1,374**	**4,705**
Income taxes	-475	-552	-56	516	-47	-146	-760
Net profit/loss for the year	**4,126**	**1,056**	**524**	**-383**	**142**	**-1,520**	**3,945**
Segment assets	47,573	31,443	10,391	23,798	3,830	-31,973	85,062
Segment liabilities	37,142	5,754	6,211	21,930	2,441	-31,506	41,971
Capital expenditures	1,137	3,523	608	350	9	0	5,627
Depreciation, amortization and impairment losses	1,285	1,392	351	1,052	45	0	4,124

(17) Cost of materials and purchased services

	2017 €'000	2016 €'000
Cost of materials	25,484	23,928
Expenses for purchased services	10,807	9,196
	36,292	**33,124**

(18) Personnel expenses

	2017 €'000	2016 €'000
Wages and salaries	20,668	20,388
Expenses for levies and contributions required by law	4,454	4,208
Contributions to the employee pension fund	124	122
Expense for severance payments and anniversary bonuses	75	76
Other personnel expenses	770	763
	26,091	**25,557**
Average number of employees		
Salaried employees	208	204
Wage earners	328	337
	536	**542**
Number of employees as of the reporting date		
Salaried employees	208	204
Wage earners	332	319
	540	**522**

(19) Other operating income

	2017 € '000	2016 € '000
Insurance claims/insurance compensation	22	88
Income from the disposal of non-current assets, not including financial assets	1	16
Recharged expenses	0	27
Own work capitalized	571	668
Other	152	224
	746	**1,023**

(20) Other operating expenses

	2017 € '000	2016 € '000
Transport by third parties	2,476	2,489
Maintenance and repair	1,715	1,731
Legal consultation and other advice	1,520	1,406
Rents and leasing	1,181	1,104
Travel expenses and mileage costs	1,008	918
Advertising and marketing	881	939
Computer expenses	640	561
Other taxes	628	632
Expenses for valuation allowances and impairment write-downs on receivables	370	402
Commissions	733	303
Insurance policies	471	521
Vehicle and truck expenses	396	337
Disposal costs	255	194
Expenses for occupational safety	208	193
Communications expenses	215	175
Monetary transaction fees	171	213
Operating expenses and occupancy costs	164	271
Training and further education	158	180
Energy	158	102
Office supplies	133	87
Contributions to professional associations	133	94
Supervisory Board remuneration	80	76
License fees	51	57
Postal charges	24	34
Losses from the disposal of property, plant and equipment	5	3
Other expenses	534	486
	14,306	**13,508**

As in the previous year, other operating expenses include primarily costs for research and development, complaint costs, expenses from prior periods, and miscellaneous other expenses.

(21) Financial result

The financial result breaks down as follows into the categories of the individual financial instruments and is divided into net interest income, measurement gains and losses, net disposal income and the other result. Impairment losses and reversals of impairment on loans and receivables relate to trade receivables and are presented under net operating income.

		MEASUREMENT GAINS AND LOSSES IN € '000 FROM					
		INTEREST INCOME AND INTEREST COST	FINANCIAL INSTRUMENTS, MEASURED AT FAIR VALUE	CURRENCY TRANSLATION	IMPAIRMENTS AND REVERSALS OF IMPAIRMENT	OTHER GAINS AND LOSSES	NET FINANCIAL INCOME
Income +/expense -							
Loans and receivables	**2017**	**-620**	**0**	**-2,455**	**-370**	**-192**	**-3,636**
	2016	-531	0	300	-260	-64	-554
Available-for-sale assets	**2017**	**12**	**0**	**0**	**0**	**0**	**12**
	2016	12	0	0	97	0	109
Financial instruments measured at fair value through profit or loss	**2017**	**0**	**206**	**0**	**0**	**0**	**206**
	2016	0	185	0	0	0	185
Financial liabilities at amortized cost	**2017**	**-209**	**0**	**0**	**0**	**0**	**-209**
	2016	-203	0	0	0	0	-203
Cash and cash equivalents	**2017**	**0**	**0**	**0**	**0**	**-2**	**-2**
	2016	-1	0	0	0	-1	-2
Other liabilities	**2017**	**-27**	**0**	**0**	**0**	**-7**	**-33**
	2016	-29	0	0	0	-22	-50
Provisions for personnel expenses	**2017**	**-54**	**0**	**0**	**0**	**0**	**-54**
	2016	-56	0	0	0	0	-56
Total	**2017**	**-897**	**206**	**-2,455**	**-370**	**-200**	**-3,716**
	2016	-807	185	300	-163	-87	-571
of which shown in other operating expenses	**2017**	**0**	**0**	**0**	**-370**	**0**	**-370**
	2016	0	0	0	-260	0	-260
of which shown in the financial result	**2017**	**-897**	**206**	**-2,455**	0	**-200**	**-3,346**
	2016	-807	185	300	97	-87	-311
Total	**2017**	**-897**	**206**	**-2,455**	**-370**	**-200**	**-3,716**
	2016	-807	185	300	-163	-87	-571

The other gains and losses mainly include loan and guarantee commissions (previous year: loan and guarantee commissions as well as net disposal income on the part of RATH SAS, France).

(22) Research and development

Expenses include the following research and development expenses:

	2017 € '000	2016 € '000
Personnel costs	426	589
Technical inspection costs	128	97
	554	686

4. OTHER DISCLOSURES

4.1. FINANCIAL INSTRUMENTS

Financial instruments encompass both primary and derivative financial instruments.

The primary financial instruments existing in the Group primarily include financial investments, trade receivables, bank balances, financial liabilities and trade payables.

The derivative financial instruments serve solely to hedge the interest rate risks existing from loans. The reference value comprises the reference base of derivative instruments open as of the reporting date. The amounts actually changing hands are only a fraction of these values. The fair value was determined on the basis of quoted prices and is presented in a separate item.

Market risk

The most significant market risks for the RATH Group are the foreign currency risk, the interest rate risk and the risks that result from price fluctuations of raw materials and energy. The objective of risk management here is to minimize possible losses by monitoring and managing these risks while considering risks and opportunities.

Interest rate risk

Risks from the change in the interest rate level exist primarily from long-term debt financing. A list of all material interest-bearing assets and liabilities as well as the impacts of a change in interest rates are included in the following tables.

The sensitivity analysis shows the effects of changes in interest rates with respect to variable rate instruments on the RATH Group's net income for the period. The analysis assumes that all other variables remain constant, in particular exchange rates.

The RATH Group does not measure any fixed interest financial assets or liabilities at fair value through profit or loss and did not use any derivatives as hedging instruments for fair value hedges as of the reporting date. A change in the interest rate with respect to fixed interest instruments would not have any effect on the consolidated income statement.

		CARRYING AMOUNT € '000	OF WHICH FINANCIAL INSTRUMENTS NON-INTEREST-BEARING € '000	FIXED INTEREST € '000	VARIABLE INTEREST € '000	GAIN/LOSS PLUS 100 BASIS POINTS € '000	MINUS 100 BASIS POINTS € '000
Interest-bearing liabilities							
Trade payables	**2017**	**5,970**	**5,970**	**0**	**0**	**0**	**0**
	2016	6,681	6,681	0	0	0	0
Other financial liabilities	**2017**	**1,155**	**1,075**	**0**	**80**	**-19**	**19**
	2016	1,254	1,254	0	0	0	0
Current liabilities to banks	**2017**	**152**	**0**	**152**	**0**	**0**	**0**
	2016	20,005	0	352	19,653	-197	197
Non-current liabilities to banks	**2017**	**39,038**	**0**	**20,038**	**19,000**	**-190**	**190**
	2016	6,189	0	189	6,000	-60	60
Lease liabilities	**2017**	**1,260**	**0**	**437**	**822**	**-8**	**8**
	2016	1,534	0	636	898	-9	9

		CARRYING AMOUNT € '000	OF WHICH FINANCIAL INSTRUMENTS NON-INTEREST-BEARING € '000	FIXED INTEREST € '000	VARIABLE INTEREST € '000	GAIN/LOSS PLUS 100 BASIS POINTS € '000	MINUS 100 BASIS POINTS € '000
Interest-bearing assets							
Cash and cash equivalents	**2017**	**19,569**	**9**	**0**	**19,560**	**196**	**0**
	2016	3,527	10	0	3,517	35	0
Trade receivables	**2017**	**15,876**	**15,876**	**0**	**0**	**0**	**0**
	2016	17,758	17,758	0	0	0	0
Other current financial receivables	**2017**	**179**	**179**	**0**	**0**	**0**	**0**
	2016	502	502	0	0	0	0
Non-current financial assets	**2017**	**730**	**730**	**0**	**0**	**0**	**0**
	2016	735	735	0	0	0	0

Exchange rate risk

The RATH Group operates internationally and is therefore increasingly exposed to exchange rate risks, above all with respect to the USD and HUF. These risks are not currently hedged by financial derivatives, as a result of which foreign exchange gains and losses could arise from foreign currency transactions.

Currency risks arise in the RATH Group because the financial assets and liabilities exist in currencies other than the functional currency.

		TOTAL	FUNCTIONAL CURRENCY	IN EUR	IN USD	IN OTHER CURRENCIES
Financial assets						
Cash and cash equivalents	**2017**	**19,569**	**17,560**	**497**	**1,512**	**0**
	2016	3,527	3,300	221	6	0
Trade receivables	**2017**	**16,915**	**15,674**	**1,241**	**0**	**0**
	2016	18,457	17,436	1,016	6	0
Other financial receivables	**2017**	**179**	**179**	**0**	**0**	**0**
	2016	502	502	0	0	0
Financial liabilities						
Trade payables	**2017**	**-5,970**	**-5,178**	**-781**	**-11**	**0**
	2016	-6,681	-6,146	-373	-163	0
Other financial liabilities	**2017**	**-1,155**	**-1,155**	**0**	**0**	**0**
	2016	-1,254	-1,254	0	0	0
Current liabilities to banks	**2017**	**-416**	**-416**	**0**	**0**	**0**
	2016	-20,295	-18,181	-2,113	0	0
Non-current liabilities to banks	**2017**	**-39,038**	**-39,038**	**0**	**0**	**0**
	2016	-6,189	-6,189	0	0	0
Net exposure	**2017**	**-9,494**	**-11,952**	**957**	**1,501**	**0**
	2016	-11,933	-10,532	-1,250	-151	0

The translation rates are presented under Note 2.4.Foreign currency translation. The following sensitivity analysis shows the effects of changes in foreign exchange rates from the measurement of financial assets and liabilities listed above on the RATH Group's net income for the period.

		IN EUR		IN USD	
EFFECTS ON NET INCOME THE PERIOD FROM A		10% APPRECIATION OF THE EUR	10% DEPRECIATION OF THE EUR	10% APPRECIATION OF THE USD	10% DEPRECIATION OF THE USD
Financial assets					
Cash and cash equivalents	2017	45	55	151	-151
	2016	20	25	0	0
Trade receivables	2017	113	138	0	0
	2016	92	113	1	-1
Other financial receivables	2017	0	0	0	0
	2016	0	0	0	0
Financial liabilities					
Trade payables	2017	-71	-87	-1	1
	2016	-34	-41	-15	18
Other financial liabilities	2017	0	0	0	0
	2016	0	0	0	0
Current liabilities to banks	2017	0	0	0	0
	2016	-192	-235	0	0
Non-current liabilities to banks	2017	0	0	0	0
	2016	0	0	0	0
Total	2017	87	106	150	-150
	2016	-114	-139	-14	17

Credit risk

The amounts disclosed on the assets side also represent the maximum credit and default risk because there are no netting agreements. The risk from receivables from customers can be considered to be low because the creditworthiness of new and existing customers is reviewed on an ongoing basis. The credit risk from other primary as well as derivative financial instruments presented on the assets side is also considered to be low because all the counterparties are financial institutions with high credit ratings.

The carrying amount of financial assets also represents the maximum credit risk. The financial assets as of the reporting date include:

	CARRYING AMOUNT € '000	CASH AND CASH EQUIVALENTS € '000	LOANS AND RECEIVABLES € '000	AVAILABLE-FOR-SALE ASSETS € '000
Financial assets				
Cash and cash equivalents 12/31/2017	**19,569**	**19,569**	**0**	**0**
Cash and cash equivalents 12/31/2016	3,527	3,527	0	0
Trade payables 12/ 31/2017	**15,876**	**0**	**15,876**	**0**
Trade payables 12/31/2016	17,758	0	17,758	0
Other financial receivables 12/31/2017	**179**	**0**	**179**	**0**
Other financial receivables 12/31/2016	502	0	502	0
Non-current financial assets 12/31/2017	**730**	**0**	**0**	**730**
Non-current financial assets 12/31/2016	735	0	0	735

The maximum credit risk from trade receivables by customer group as of the reporting date is as follows:

	12/31/2017 € '000	12/31/2016 € '000
Receivables from key accounts, gross	3,292	4,108
Receivables from others, gross	13,623	14,349
Total trade receivables, gross	**16,915**	**18,457**
Loss allowances	-1,039	-699
Total trade receivables, net	**15,876**	**17,758**

About 21% (previous year: 23%) of the trade receivables in the fiscal year just ended resulted from business relationships with ten key accounts. Ongoing business relationships with the key accounts are analyzed and assessed regularly by the RATH Group based on historical values from past payment behavior, by obtaining information on credit and creditworthiness from external credit bureaus, by continually obtaining detailed current information and data about the customers from the Sales organization in close coordination with management, depending on the customer's geographical region or origin, as well as by establishing credit limits through an established internal receivables management system based on past experience with the customer in question. Where necessary, relationships are adjusted accordingly in order to recognize possible indications of defaults as early as possible and to initiate countermeasures if necessary. Good or very high creditworthiness is assumed for these customer groups based on a detailed assessment and analysis of their order and payment behavior as well as of the close contact and relationship with the customer. The assessment of the customers' creditworthiness is based on internal and external classifications as well as available market and customer data. The same approach is applied to all other customers. In addition, there are no risk concentrations with respect to other financial assets.

The age structure of financial assets and the recognized loss allowances is as follows:

	12/31/2017 € '000	12/31/2016 € '000
Trade receivables	15,876	17,758
Other current financial assets	0	0
Other financial receivables	179	502
Other non-current financial assets	730	735
	16,785	**18,996**
Amount before loss allowance	17,824	19,695
of which		
not due and not impaired	11,031	13,110
not due and impaired	0	0
up to 90 days past due	4,940	3,411
91 to 180 days past due	1,166	1,205
181 to 360 days past due	575	871
more than 360 days past due	111	1,097
of which impaired	1,039	699
of which past due, but not impaired	5,753	5,885
Specific valuation allowance	1,039	699
Specific impairment allowances calculated on a portfolio basis	0	0

The nominal amount of financial assets, reduced by any estimated deductions, corresponds to the fair value.

Liquidity risk

Liquidity risk is the risk of not being able to raise the necessary funds for the timely payment of liabilities entered into. Cautious liquidity risk management ensures the presence of sufficient cash and cash equivalents as well as the option of financing using adequate lines of credit. Due to the dynamic nature of the underlying transactions, the Company endeavors to enable flexible capital acquisition through available lines of credit at several banks.

The following statement shows the contractual maturities as well as forecast interest payments of financial liabilities.

		DUE IN 6 MONTHS		DUE IN 6-12 MONTHS		DUE IN 1-2 YEARS	
	CARRYING AMOUNT € '000	INTEREST € '000	PRINCIPAL PAYMENT € '000	INTEREST € '000	PRINCIPAL PAYMENT € '000	INTEREST € '000	PRINCIPAL PAYMENT € '000
Trade payables 12/31/2017	**5,970**	**0**	**5,970**	**0**	**0**	**0**	**0**
Trade payables 12/31/2016	6,681	0	6,681	0	0	0	0
Other financial liabilities 12/31/2017	**1,155**	**0**	**1,155**	**0**	**0**	**0**	**0**
Other financial liabilities 12/31/2016	943	0	943	0	0	0	0
Current liabilities to banks 12/31/2017	**152**	**7**	**76**	**3**	**76**	**0**	**0**
Current liabilities to banks 12/31/2016	20,005	135	2,991	104	17,014	0	0
Non-current liabilities to banks 12/31/2017	**39,038**	**332**	**0**	**332**	**0**	**656**	**4,038**
Non-current liabilities to banks 12/31/2016	6,189	50	0	50	0	105	152
Lease liabilities 12/31/2017	**1,260**	**23**	**132**	**20**	**132**	**53**	**826**
Lease liabilities 12/31/2016	1,534	30	144	26	146	47	296
Derivative financial instruments 12/31/2017	**105**	**105**	**0**	**0**	**0**	**0**	**0**
Derivative financial instruments 12/31/2016	311	98	0	98	0	196	311

		DUE BETWEEN 2-5 YEARS		DUE AFTER 5 YEARS	
	CARRYING AMOUNT € '000	INTEREST € '000	PRINCIPAL PAYMENT € '000	INTEREST € '000	PRINCIPAL PAYMENT € '000
Trade payables 12/31/2017	**5,970**	**0**	**0**	**0**	**0**
Trade payables 12/31/2016	6,681	0	0	0	0
Other financial liabilities 12/31/2017	**1,155**	**0**	**0**	**0**	**0**
Other financial liabilities 12/31/2016	943	0	0	0	0
Current liabilities to banks 12/31/2017	**152**	**0**	**0**	**0**	**0**
Current liabilities to banks 12/31/2016	20,005	0	0	0	0
Non-current liabilities to banks 12/31/2017	**39,038**	**1,752**	**15,000**	**674**	**20,000**
Non-current liabilities to banks 12/31/2016	6,189	131	6,038	0	0
Lease liabilities 12/31/2017	**1,260**	**4**	**170**	**0**	**0**
Lease liabilities 12/31/2016	1,534	36	949	0	0
Derivative financial instruments 12/31/2017	**105**	**0**	**0**	**0**	**0**
Derivative financial instruments 12/31/2016	311	0	0	0	0

Fair values

The following statement shows the fair values of financial assets and liabilities in relationship to their carrying amounts:

	12/31/2017		12/31/2016	
	CARRYING AMOUNT € '000	FAIR VALUE € '000	CARRYING AMOUNT € '000	FAIR VALUE € '000
Cash and cash equivalents	19,569	19,569	3,527	3,527
Trade receivables	15,876	15,876	17,758	17,758
Other financial receivables	179	179	502	502
Non-current financial assets	730	730	735	735
Trade payables	5,970	5,970	6,681	6,681
Other financial liabilities	1,155	1,155	1,254	1,254
Current liabilities to banks	152	152	20,005	20,005
Non-current liabilities to banks	39,038	38,876	6,189	6,130
Lease liabilities	1,260	1,260	1,534	1,442

Financial assets, in particular cash and cash equivalents, trade receivables, as well as other financial assets, are measured at amortized cost. Non-current financial assets are measured at fair value, whereby the fair value represents the price that one would receive in a normal transaction between market participants on the measurement date upon the sale of the non-current financial assets.

Financial liabilities, in particular trade payables, current and non-current liabilities to banks, as well as lease liabilities are also measured at amortized cost. The other financial liabilities are measured at fair value, where the fair value is the price that one would have to pay in a normal transaction between market participants on the measurement date when transferring the other financial liabilities.

The fair value of current financial liabilities does not differ significantly from the respective carrying amount. The fair value of derivative financial instruments can be found in the table presented in 4.1. The fair value of the other primary financial instruments essentially corresponds to the carrying amount due to the daily or short-term maturities.

The individual financial assets and financial liabilities are classified and measured in the consolidated financial statements as follows:

	CATEGORY	MEASUREMENT AT AMORTIZED COST *€ '000*	MEASUREMENT AT FAIR VALUE *€ '000*	MEASUREMENT TOTAL *€ '000*	LEVEL 1	LEVEL 2	LEVEL 3
12/31/2017							
Financial assets							
Cash and cash equivalents	Loans and receivables	19,569	0	19,569			
Trade receivables	Loans and receivables	15,876	0	15,876			
Other financial receivables	Loans and receivables	179	0	179			
Non-current financial assets	Available for sale	0	730	730	X		
Financial liabilities							
Trade payables	Other financial liabilities	5,970	0	5,970			
Other financial liabilities	At fair value through profit or loss	1,050	105	1,155		X	
Current liabilities to banks	Other financial liabilities	152	0	152			
Non-current liabilities to banks	Other financial liabilities	39,038	0	39,038			
Lease liabilities	Other financial liabilities	1,260	0	1,260			

	CATEGORY	MEASUREMENT AT AMORTIZED COST € '000	MEASUREMENT AT FAIR VALUE € '000	MEASUREMENT TOTAL € '000	LEVEL 1	LEVEL 2	LEVEL 3
12/31/2016							
Financial assets							
Cash and cash equivalents	Loans and receivables	3,527	0	3,527			
Trade receivables	Loans and receivables	17,758	0	17,758			
Other financial receivables	Loans and receivables	502	0	502			
Non-current financial assets	Available for sale	0	735	735	X		
Financial liabilities							
Trade payables	Other financial liabilities	6,681	0	6,681			
Other financial liabilities	At fair value through profit or loss	943	311	1,254		X	
Current liabilities to banks	Other financial liabilities	20,005	0	20,005			
Non-current liabilities to banks	Other financial liabilities	6,189	0	6,189			
Lease liabilities	Other financial liabilities	1,534	0	1,534			

When determining the fair values for non-current liabilities to banks and lease liabilities, a Level 2 measurement is assumed, however, the long-term liabilities to banks and lease liabilities are recognized in detail at carrying amounts.

In addition to other liabilities measured at amortized cost, the other financial liabilities also include liabilities from an interest rate swap arrangement that are measured at fair value. The fair value of the interest rate swap is €105 thousand (previous year: €311 thousand).

Hierarchy for the determination of fair values

The following statement analyzes the instruments measured at fair value based on the type of measurement method. Three levels of measurement methods are defined:

Level 1: Quoted prices for identical assets or liabilities on an active market (without adjustment). The market prices quoted on the reporting date are used to determine the fair value.

Level 2: Inputs that are observable for the assets or liabilities either directly (for example as prices) or indirectly (for example derived from prices) and that do not fall under level 1.

Level 3: Inputs for assets or liabilities that are not observable market inputs.

	LEVEL 1 € '000	LEVEL 2 € '000	LEVEL 3 € '000	TOTAL € '000
12/31/2017				
Financial assets				
Available-for-sale financial assets	730	0	0	730
Financial liabilities				
Derivative financial liabilities	0	105	0	105
Total	**730**	**105**	**0**	**836**

	LEVEL 1 € '000	LEVEL 2 € '000	LEVEL 3 € '000	TOTAL € '000
12/31/2016				
Financial assets				
Available-for-sale financial assets	735	0	0	735
Financial liabilities				
Derivative financial liabilities	0	311	0	311
Total	**735**	**311**	**0**	**1,046**

4.2. RENTAL AND LEASE OBLIGATIONS

The obligations from operating leases primarily concern rental expenses as well as operating lease agreements for automotive and machinery. Obligations from non-cancelable rental and lease obligations by maturity:

	2017 € '000	2016 € '000
Up to 1 year	1,085	1,112
Up to 5 years	1,820	1,771
More than 5 years	0	0
	2,905	**2,883**

During the reporting period €1,181 thousand (previous year: €1,104 thousand) was recognized as rental and lease expenses.

The finance lease arrangements in the RATH Group essentially concern warehouse and production buildings as well as production and manufacturing equipment. The future minimum lease payments of lease and rental obligations from finance leases due as of each December 31, or before the expiration of the lease in question in the coming fiscal years are as follows:

	12/31/2017			12/31/2016		
	FUTURE MINIMUM PAYMENTS	INTEREST	PRESENT VALUE OF THE FUTURE MINIMUM PAYMENTS	FUTURE MINIMUM PAYMENTS	INTEREST	PRESENT VALUE OF THE FUTURE MINIMUM PAYMENTS
	€ '000	*€ '000*	*€ '000*	*€ '000*	*€ '000*	*€ '000*
Up to one year	307	9	298	346	7	339
Between one and five years	1,027	65	962	1,298	123	1,175
Total of future minimum payments	**1,335**	**74**	**1,260**	**1,644**	**130**	**1,514**

Capital management

Management's objective is to structure capitalization as defined by the requirements of shareholders, banks, and suppliers such that an optimal development of the Group can be ensured. Management endeavors to achieve a balance between possible higher earnings and equity with a lower debt ratio and the necessary operational flexibility provided in part by debt capital. Neither the parent company nor its subsidiaries are subject to minimum capital requirements that are externally imposed or stipulated under their articles of association. The objective of capital management is to ensure the continued existence of the Group companies as going concerns on the one hand, and on the other hand, to maximize the shareholders' yields by optimizing the use of equity and debt capital. The capital structure consists of financial liabilities, cash and cash equivalents, and equity that is attributable to the shareholders of RATH AG, and includes share capital, capital reserves and retained earnings. The capital structure is monitored continuously. The monitoring takes into account the cost of capital and the risks affiliated with each type of capital. The equity ratio is the key parameter, which is monitored continuously by management and is defined as equity as per the consolidated balance sheet in relation to total assets. The target ratio is above 40%.

4.3. CONTINGENT LIABILITIES

Contingent liabilities

The RATH Group has assumed the following contingent liabilities:

	12/31/2017	12/31/2016
	€ '000	*€ '000*
Security retentions for business partners	2,759	1,361
	2,759	**1,361**

The security retentions for business partners essentially concern the project business and are granted to customers to secure our performance obligation. There are no buy back obligations that extend beyond the industry standard warranties. Management is not currently aware of additional opportunities and risks from off-balance sheet transactions.

Open legal disputes

As in the previous year, there were no significant open legal disputes as of the date the annual financial statements were prepared.

4.4. RELATED PARTIES

In accordance with IAS 24 (Related Party Disclosures), relationships with related entities, if they are not already included as consolidated entities in the consolidated financial statements of RATH, and with related individuals must be disclosed. The Group reports on transactions between itself and its related individuals or their family members. Related individuals are defined to be members of the Executive Board, the Supervisory Board and their family members.

All transactions with related parties are made under arm's length conditions. Parties related to the RATH Group and their transactions with it include:

› Property owner Walfischgasse, Ernst Rath and co-owners
  Rental expense including operating costs in 2017: €154 thousand (previous year: €149 thousand)

› RATH Holding GmbH
  Liability in 2017: €0 thousand (previous year: €2 thousand)

RATH Holding GmbH holds 66.67% of the shares in RATH AG. Ernst Rath, Karin Bauer-Rath, Paul Rath, and Matthias Rath are registered as managing directors of RATH Holding GmbH, company number 195558k. Listed as shareholders in the commercial register are: Dr. Ernst Rath GmbH and Dkfm.Paul Rath GmbH. Ernst Rath and Matthias Rath are registered as managing directors of Dr. Ernst Rath GmbH, company no. 102608w. Listed as shareholders in the commercial register are:
Ernst Rath, Philipp Rath, and Matthias Rath.

Paul Rath and Karin Bauer-Rath are registered as managing directors of Paul Rath GmbH, company no. 101540z. Listed as shareholders in the commercial register are: Paul Rath, Karin Bauer-Rath and Andrea Vladarski.

The compensation of the management in key positions in the Group requiring disclosure include the compensation of the Executive Board and of the Supervisory Board.

a) Related entities
In addition to the subsidiaries included in the consolidated financial statements, the Group has relationships, directly or indirectly, in the exercise of normal business activities with unconsolidated entities, that are considered related entities of the Group. The non-inclusion of the unconsolidated entities in the consolidated financial statements has no significant impact on the Group's financial position, financial performance or cash flows.

b) Related individuals
Executive Board of RATH AG, Vienna
The Executive Board of RATH AG consisted of two members as of December 31, 2017.

Jörg Sitzenfrey, born 1976, has been a member of the Executive Board responsible for Production, Research & Development, and IT since January 1, 2013 (initial appointment).

Andreas Pfneiszl, born 1969, has been a member of the Executive Board responsible for Sales, Finance, and Human Resources since June 10, 2013 (initial appointment).

The members of the Executive Board did not hold any supervisory board memberships or similar functions in domestic or foreign companies not included in the consolidated financial statements during the 2017 fiscal year. In addition, the Executive Board is represented in the management of RATH Filtration GmbH, Vienna. Both Executive Board contracts run until December 31, 2020.

Executive Board compensation:

		2017 € '000	2016 € '000
Jörg Sitzenfrey	Fixed	205	200
	Life insurance	10	10
	Variable	86	70
		301	**280**
Andreas Pfneiszl	Fixed	205	200
	Life insurance	10	10
	Variable	86	70
		301	**280**
Total Executive Board compensation		**602**	**560**

These as well as other business relationships with companies in which Supervisory Board members or members of the Executive Board of RATH AG are active are conducted under arm's length conditions and are insignificant on an individual and aggregate basis. The compensation of the Executive Board is based on the scope of the mandate, the responsibility and personal performance of the Executive Board member, as well as on the attainment of corporate goals, the size and economic position of the Company. Performance-based compensation at RATH AG is not provided through stock options, but instead is dependent on variable performance criteria. These include meeting pre-defined targets with regard to the Company's business results, as well as qualitative and quantitative goals.

The total compensation paid to the Executive Board in 2017 included both fixed and performance-based components. The ceiling for variable compensation was set at 50% of the base salary. The members of the Executive Board were granted rights to pension benefits in the form of life insurance. In the event of early termination of employment, the amounts paid in up to that date become vested. After leaving the board and provided the employment is terminated at the same time, a member of Executive Board has claims to severance benefits within the meaning of section 23 of the Austrian Salaried Employees Act (Angestelltengesetz) unless the termination is due to a justified dismissal. In this regard it is mentioned that the existing claims to severance benefits were frozen on December 31, 2002; the claims only increase by adjustment of the salaries. Pension payments totaling €194 thousand (previous year: €179 thousand) were paid to former members of executive bodies. RATH AG obtained D&O insurance for 2017. The costs are borne by the Company. The D&O insurance insures certain personal liability risks of individuals acting on behalf of the RATH Group. As in the previous year, the annual costs were €15 thousand.

Supervisory Board of RATH AG, Vienna

Stefan Ehrlich Adám (Chairman) since 6/25/2013
Philipp Rath (Deputy Chairman) since 7/17/2003
Karin Bauer-Rath since 6/1/2016
Dieter Hermann since 6/25/2013
Christian B. Maier since 6/27/2008
Andreas Meier since 6/1/2016

The cost of the compensation of the members of the Supervisory Board in the reporting period was €80 thousand (previous year: €76 thousand).

4.5. AUDIT EXPENSES

The expenses for the auditor of the consolidated financial statements, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, attributable to the fiscal year totaled €57 thousand (previous year: €45 thousand), of which €25 thousand (previous year: €22 thousand) was for the audit of the consolidated financial statement (including financial statements of individual associated companies).

4.6. EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the interest in the consolidated earnings attributable to the shareholders of RATH AG by the weighted number of ordinary shares outstanding during the year.

	2017	2016
Interest in the consolidated net income in € '000 attributable to the shareholders of the parent company	2,370	3,944
Weighted number of shares outstanding	1,500,000	1,500,000
Earnings per share in €	1.58	2.63
Dividends paid for fiscal year per share in €	0.75	0.50

The diluted earnings per share correspond to the basic earnings per share because there are no outstanding financial instruments with a diluting effect.

5. EVENTS AFTER THE BALANCE SHEET DATE

No material events of significance occurred after the closing of the fiscal year for the RATH Group.

These consolidated financial statements were prepared on April 26, 2018, by the Company's Executive Board and provided to the Supervisory Board on April 26, 2018, for examination and approval.

The Executive Board

VIENNA, APRIL 26, 2018

Andreas Pfneiszl

Jörg Sitzenfrey

AUDITOR'S REPORT

AUDITOR'S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Auditor's opinion

We have audited the consolidated financial statements of Rath Aktiengesellschaft, Vienna, and its subsidiaries (the Group), consisting of the consolidated statement of financial position as of December 31, 2017, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows, and consolidated statement of changes in equity for the fiscal year ended on this reporting date, and the notes to the consolidated financial statements.

In our opinion, the consolidated financial statements correspond to the statutory provisions and give a true and fair view of the net assets and financial position of the Group as of December 31, 2017, as well as of the results of operations and cash flows of the Group for the fiscal year ended on this reporting date in compliance with the International Financial Reporting Standards (IFRSs), as adopted by the EU, and the additional requirements of section 245a of the Austrian Commercial Code (UGB).

BASIS FOR THE OPINION

We performed our audit of the financial statements in compliance with EU Regulation no 537/2014 (hereinafter referred to as EU Audit Regulation) and with Austrian generally accepted auditing standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those regulations and standards are described more extensively in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our Auditor's Report. We are independent of the Group in compliance with Austrian commercial law and professional standards and we have fulfilled our other professional obligations in compliance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KEY AUDIT MATTERS

Key audit matters are such matters that in our professional judgment were the most significant for our audit of the consolidated financial statements for the fiscal year. These matters were taken into account in connection with our audit of the consolidated financial statements as a whole and in forming our audit opinion on the financial statements, and we do not issue a separate auditor's opinion on these matters.

AUDITOR'S REPORT

RECOGNITION OF DEFERRED TAX ASSETS ON LOSS CARRYFORWARDS

See Note 3.12 in the notes to the consolidated financial statements.

The risk for the financial statements

The recognition of deferred tax assets on loss carryforwards is dependent on significant estimates by the Executive Board with respect to their future realizability.

Of the loss carryforwards totaling €11,636 thousand on which deferred tax assets have been recognized, €5,003 thousand or about 43% are attributable to loss carryforwards of Rath Inc, USA, and €6,254 thousand to RATH AG. The deferred taxes on loss carryforwards were recognized based on the estimate of the Executive Board that sufficient future taxable income will be available at RATH Inc and RATH AG against which the losses can be offset. This estimate is based on the Executive Board's profit forecasts for RATH Inc. and RATH AG.

This was classified as a key matter due to the significant estimate and the related uncertainties.

Our approach in the audit

We have obtained an understanding of the process of preparing the taxable profit forecasts by the Executive Board and critically scrutinized the material assumptions and estimates by the Executive Board underlying the profit forecasts. We have also had discussions with the Executive Board and analyzed the business development and strategic alignment of RATH Inc and RATH Aktiengesellschaft in particular, as well as economic conditions. In so doing we have evaluated the fulfillment of past forecasts by comparing the historical budgets with the actual results.

We have also ascertained that the model for forecasting is applied consistently across all areas of the Group and in the reports to the Supervisory Board.

Furthermore, we have assessed whether the necessary notes disclosures in connection with the deferred tax assets from loss carryforwards pursuant to IAS 12 are appropriate.

RESPONSIBILITIES OF MANAGEMENT AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation of the consolidated financial statements and that they give a true and fair view of the net assets, financial position, and results of operations of the Group in compliance with the IFRSs as adopted by the EU and the additional requirements of section 245a UGB. Management is also responsible for the internal controls that it considers to be necessary to enable the preparation of consolidated financial statements that are free from material misstatement due to fraud or error.

AUDITOR'S REPORT

When preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, where pertinent, matters related to the going-concern assumption, and using the going-concern basis of accounting unless management intends to either liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's accounting processes.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in compliance with the EU Audit Regulation and with Austrian generally accepted auditing standards, which require the application of the ISAs, will always detect an existing material misstatement. Misstatements can result from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Audit Regulation and with Austrian generally accepted auditing standards, which require the application of the ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- identify and assess the risks of material misstatements in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk that material misstatements resulting from fraud are not detected is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- obtain an understanding of the internal control system relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control system.

- evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

AUDITOR'S REPORT

If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

- We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an audit opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the audit of the consolidated financial statements. We are solely responsible for our audit opinion.

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

- We also provide the audit committee with a statement that we have adhered to the relevant ethical requirements on independence and communicate to it all relationships and other matters that may reasonably be thought to bear on our independence and–where applicable–related safeguards.

- From the matters we have communicated to the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements for the fiscal year and are therefore the key audit matters. We describe these matters in our auditor's report unless the law or other regulations preclude the public disclosure of the matter or we determine in extremely rare cases that a matter should not be communicated in our auditor's report because it is reasonably expected that the negative consequences of such a communication would outweigh its benefits for the public interest.

OTHER STATUTORY AND LEGAL REQUIREMENTS

Report on the Group management report
Based on Austrian commercial law requirements, the Group management report must be examined as to whether it is consistent with the consolidated financial statements and whether it was prepared in accordance with the applicable statutory requirements.

Management is responsible for the preparation of the Group management report in compliance with the requirements of Austrian commercial law.

AUDITOR'S REPORT

We performed our examination in compliance with the professional principles for the examination of the management report.

OPINION
In our opinion the Group management report has been prepared in accordance with the applicable statutory requirements, contains the applicable disclosures in accordance with section 243a UGB, and is consistent with the consolidated financial statements.

STATEMENT
In view of the findings obtained during the audit of the annual financial statements and the understanding of the Group and its environment, we did not find any materially erroneous disclosures in the Group management report.

Other information
Management is responsible for the other information. The other information includes all information in the annual report, except the annual and/or consolidated financial statements, the management and/or Group management report, and the related auditor's reports.

Our audit opinion on the consolidated financial statements does not extend to this other information and we do not give any type of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read this other information and to consider whether the other information is materially inconsistent with the consolidated financial statements or with our knowledge obtained during the audit, or whether this other information otherwise appears to be materially misstated. If, based on the work conducted, we arrive at the conclusion that the other information is materially misstated, we must report this. We have nothing to report in this regard.

Supplemental disclosures pursuant to Article 10 of the EU Audit Regulation
We were elected as the auditor by the Annual General Meeting on June 1, 2017, and engaged by the Supervisory Board with the audit of the consolidated financial statements of RATH Aktiengesellschaft on December 19, 2017. We have been the Company's auditor without interruption since the consolidated financial statements for the year ended December 31, 2014.

We hereby declare that the auditor's opinion in the Section "Report on the consolidated financial statements" is consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation.

We hereby declare that we have not provided any prohibited non-audit services (Article 5 (1) of the EU Audit Regulation) and that we ensured our independence from the audited company during the conduct of the audit of the financial statements.

AUDITOR'S REPORT

Auditor responsible for the engagement

The auditor responsible for the engagement for the audit of the financial statements is Yann-Georg Hansa.

Vienna, April 26, 2018

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Yann-Georg Hansa
Wirtschaftsprüfer (Austrian Public Auditor)

The consolidated financial statements with our auditor's report may only be published or forwarded in the version attested to by us. This auditor's report refers solely to the complete consolidated financial statements in German, including the Group management report. The provisions of section 281 (2) UGB must be adhered to for other versions.

GLOSSARY

Business terms and performance indicators

ACTUARIAL GAIN/LOSS	Current gain/loss
AVAILABLE FOR SALE	Available for sale
AVÖ	Aktuarvereinigung Österreichs (Actuarial Association of Austria); represents Austrian actuaries, insurance actuaries and actuarial experts. The AVÖ publishes the pension actuarial tables based on which the obligations for pension and severance benefits are calculated.
CASH GENERATING UNIT	Cash generating unit
CORPORATE GOVERNANCE	Codes of conduct for the responsible management and supervision of companies, set forth in the Austrian Corporate Governance Code. The content is a voluntary set of rules.
DBO (DEFINED BENEFIT OBLIGATION)	The present value of all unvested and vested earned claims based on the estimated pay level as of the date of retirement. The only actuarial method under which the DBO may be calculated is the projected unit credit method. The DBO corresponds to the PBO (Projected Benefit Obligation).
DISCOUNT	Difference between the issue amount and settlement amount of a liability
D&O INSURANCE– DIRECTORS' & OFFICERS' LIABILITY INSURANCE	D&O insurance (also called manager liability insurance or in general: loss liability insurance) for executive bodies of legal persons (stock corporations, limited liability corporations, cooperatives, foundations, registered associations) is normally taken out as insurance on behalf of third parties. The entity (policyholder) insures its board members (executive board members, managing directors, supervisory board members, advisory board members) against the risk of personal liability from service on such boards.
EBITDA	Earnings before interest, taxes, depreciation and amortization
EBITDA MARGIN	Ratio of EBITDA to revenue as a percentage
EBIT (EARNINGS BEFORE INTEREST AND TAXES)	Operating result
EBIT MARGIN	Ratio of EBIT to revenue as a percentage
EBT (EARNINGS BEFORE TAXES)	Profit before taxes
EQUITY RATIO	Equity divided by total capital
FAIR VALUE	Measurement of financial instruments including derivative financial instruments using the fair value
FINANCE LEASE	In a finance lease, the asset is leased in exchange for a fixed lease payment for a specified minimum lease term. The contract cannot be terminated during the minimum lease term. The lessee must bear the risks related to the leased asset. This includes the risk of destruction or theft. Finance leases usually stipulate a down payment or higher initial lease payments. Depending on the contractual arrangement, a distinction must be made between full amortization contracts and partial amortization contracts.

GLOSSARY

IAASB (INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD)	International body for auditing and liability standards
IAS (INTERNATIONAL ACCOUNTING STANDARDS)	International Accounting Standards (see IFRS)
IASB (INTERNATIONAL ACCOUNTING STANDARDS BOARD)	International body for the setting of accounting standards
IFAC (INTERNATIONAL FEDERATION OF ACCOUNTANTS)	International association of accountants
IFRIC (INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE)	International committee for the interpretation of accounting standards
IFRS (INTERNATIONAL FINANCIAL REPORTING STANDARDS)	International accounting standards (formerly IAS)
INTEREST RATE SWAP	Agreement on the exchange of differently structured cash flows for a specified period. The cash flows are based on fixed and variable interest rates; to hedge against changes in interest rates.
ISA (INTERNATIONAL STANDARDS ON AUDITING)	International auditing standards
PERCENTAGE OF COMPLETION	Degree of completion of a project
PREMIUM	Extra money paid
PRESENT VALUE	The present value corresponds to the value a series of future payments has at the present time. In other words, it is the value of all cash flows at the beginning of the term (at date 0).
PUC (PROJECTED UNIT CREDIT METHOD)	Actuarial valuation method
RETURN ON EQUITY	Profit divided by equity
ROCE (RETURN ON CAPITAL EMPLOYED)	Yield on capital employed. Quotient of EBIT and capital employed
SENSITIVITY ANALYSIS	The sensitivity analysis serves to identify interrelations between the input data of model calculations and the target values of alternatives.
WACC (WEIGHTED AVERAGE COST OF CAPITAL)	Describes an approach to the discounted cash flow method for corporate valuations. The weighted average costs of capital are used to determine the minimum yield for capital spending projects.
WORKING CAPITAL RATIO	Expresses the share of current liabilities that can be financed by current assets. Inventories and receivables, less trade payables, are expressed as a percentage of revenue.

LEGAL INFORMATION

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IR AND COMPLIANCE DIRECTOR: ANDREAS PFNEISZL

WEB: WWW.RATH-GROUP.COM

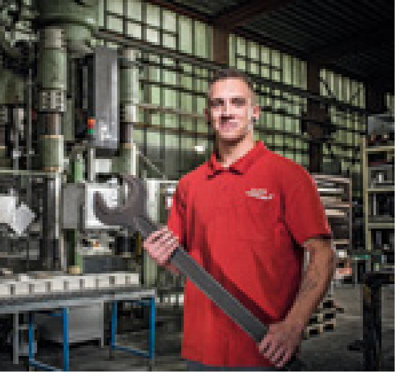
EMAIL: INFO@RATH-GROUP.COM

GRAPHIC DESIGN: TITANWEISS WERBEAGENTUR GMBH

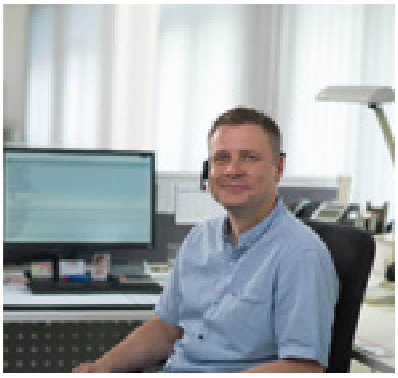
TRANSLATION: ASI GMBH - AUSTRIA SPRACHENDIENST INTERNATIONAL

SUBJECT TO TYPOGRAPHICAL ERRORS AND MISPRINTS

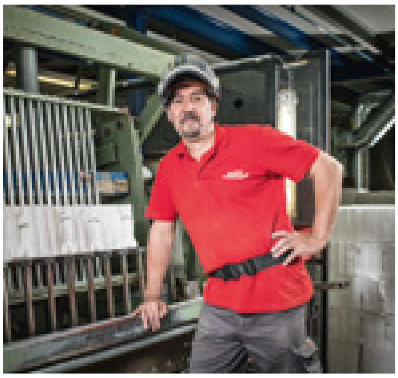
ANY USE OF GENDERED TERMS SHOULD BE UNDERSTOOD TO REFER TO BOTH GENDERS. WE REFRAINED FROM THE CONSISTENT USE OF BOTH GENDERS TO IMPROVE LEGIBILITY..

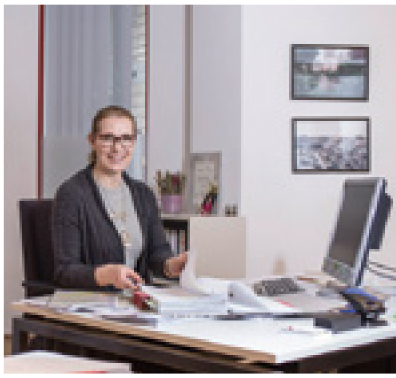


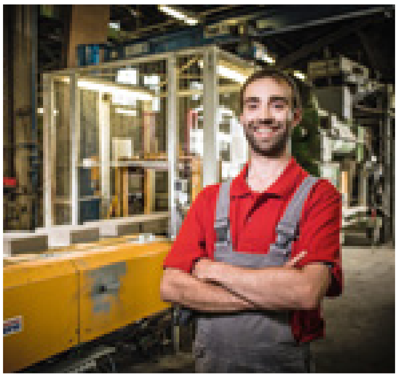


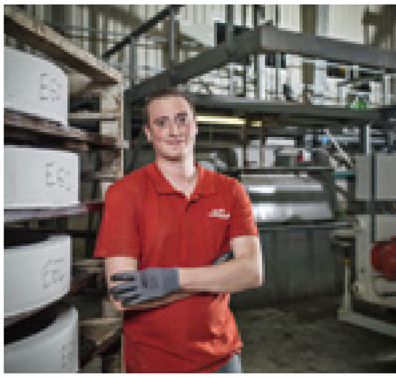
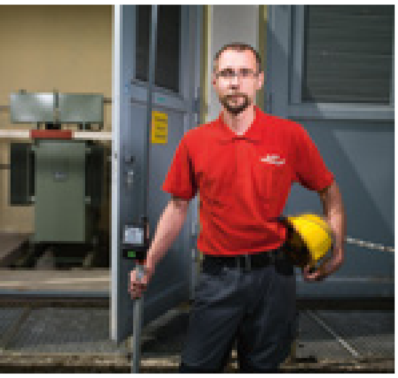











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