2018

ANNUAL REPORT

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RATH

KEY FIGURES

	2018 K€	2017 K€	2016 K€	2015 K€	2014 K€
Turnover	**94,488**	86,338	80,306	81,924	77,441
Change in %	**9.4**	7.5	-2.0	5.8	-2.5
EBIT	**8,422**	6,237	5,016	5,627	4,612
EBIT margin in %	**8.9**	7.2	6.2	6.9	6.0
EBT	**8,170**	2,891	4,705	6,499	5,022
Operating cash flow	**12,979**	10,148	5,903	6,155	5,513
Capital ratio in %	**45.3**	44.7	50.7	49.2	46.9
Return on equity in %	**12.1**	5.4	9.2	10.3	7.9
Net debt	**14,501**	20,150	23,446	23,563	24,918
Net debt / EBITDA ratio	**1.14**	1.94	2.57	2.41	2.93
Working capital in % *	**30.0**	34.8	40.4	38.2	37.2
ROCE in %	**9.7**	8.8	6.3	5.1	11.0
WACC in %	**7.0**	7.2	6.0	7.5	8.1
Investments in property	**5,479**	5,788	5,629	3,799	2,805
Depreciation	**4,306**	4,157	4,124	4,159	3,905
Number of employees in annual average	**549**	536	542	551	549
Number of consolidated companies	**10**	10	10	9	11

* Working capital takes into account advance payments received on orders for the business years 2017 and 2018 (contract liability)

ANNUAL REPORT 2018

RATH GROUP

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2018

BOOMING ECONOMY, HIGH-QUALITY PRODUCTS AND OUR EXCELLENT SOLUTIONS ARE THE BASIS OF OUR SUCCESS

RATH ACHIEVES BEST BUSINESS YEAR SINCE THE PUBLIC OFFERING IN 1989

PREFACE BY THE EXECUTIVE BOARD

DEAR LADIES AND GETLEMEN

We have experienced the past year 2018 as particularly variegated.

Apart from the fact that the RATH Group was confronted with good framework conditions, the anti-dumping duties imposed by the US administration, which particularly affect our customers in the steel and aluminum industries, have hampered further positive development. In addition, the trade conflict between the USA and China, which was initiated through punitive tariffs, continues to this day, and with the USA's single-handed policy of economic sanctions against Iran, we have lost an important trading partner. In Europe, the imminent withdrawal of Great Britain from the European Union dominated our political events.

In these turbulent times, our RATH Group achieved its most successful year since the IPO in 1989, and this fills us with great pride. The demand for our products in the reporting year was extraordinary and continues to this day. Together with our customers, RATH is growing continuously. As you can see from the following annual report, we achieve a turnover close to the M€ 100 mark we have set ourselves for the long term. Our productions are running at full throttle, and our new products find their successful way into the market. We were able to exceed our targets, and the benchmark for 2019 is high.

As announced at the last General Meeting, the RATH Group is striving for inorganic growth as well. Very interesting companies have been spotted, but we are not yet in a position to announce a final positive project.

The year 2019 has started well for RATH, although economic data, both national and international, are

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

slowly losing their luster. Nevertheless, the Executive Board assumes that it will be able to deliver strong performance in terms of both turnover and earnings under difficult conditions.

In keeping with the excellent annual result, the Executive Board and Supervisory Board will propose to the forthcoming General Meeting on 27-MAY-2019 that a dividend to the amount of € 1.00 per no-par share be distributed (previous year: € 0.75 per share).

Big thanks are due to our employees, because without their untiring commitment this very positive result would not have been possible.

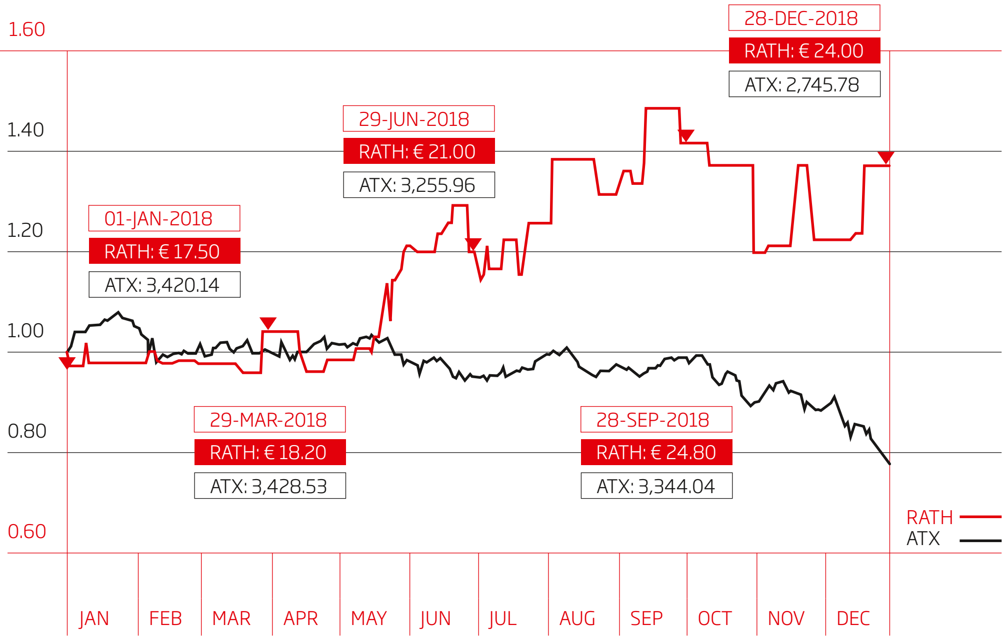
Yours, the Executive Board

Andreas Pfneiszl

DI Jörg Sitzenfrey

THE STOCK

› SHARE DEVELOPMENT



› STOCK MARKET INDICATORS

ISIN	AT0000767306
Securities abbreviation	RAT
Market segment	Standard Market Auction
Trading segment	Official trading
Class of shares	No-par shares entitled to vote
Number of shares	1,500,000
Total number of shares	1,500,000
Share price as per 30-DEC-2018	€ 24.00
Market capitalization:	€ 36,000,000.00
Earnings/share	€ 3.91

› CAPITAL MARKET CALENDAR 2019

27-MAY-2019	Annual General Meeting
03-JUN-2019	Ex-dividend day
04-JUN-2019	Dividend pay day
27-SEP-2019	Semi-annual result 2019
29-NOV-2019	Result Q3-2019

THE STOCK

STOCK

The RATH stock

After a price of € 17.50 at the beginning of 2018, until the end of the year the share price gradually increased. By mid-year (29-JUN-2018), the share price was at € 21.00, corresponding to an increase by approx. 20 %. In the further course of the year, the share price rose steadily and closed at the end of the year at € 24.00.

Investor Relations

The goal of the capital market communication of RATH AG is to inform the financial community about market-relevant
developments promptly, comprehensively and regularly. As a competent contact
we are capable of creating a fair and appropriate assessment of the RATH stock. The focus
is always on presentation of a correct and appropriate picture of the Company in accordance with the "True and Fair View".

For us, investor relations is not only the obligation to inform our shareholders about the company, but rather the opportunity to attract new investors at home and abroad.

Investor Relations Officer
Christine Wittmann
Email: ir@rath-group.com
Internet: www.rath-group.com

CORPORATE GOVERNANCE REPORT PURSUANT TO § 243C AND § 267B OF THE UGB (AUSTRIAN COMMERCIAL CODE)

CORPORATE GOVERNANCE REPORT STATEMENT PURSUANT TO § 243C AND § 267B OF THE UGB (AUSTRIAN COMMERCIAL CODE)

RATH is fully committed to complying with the rules of conduct laid down in the Austrian Corporate Governance Code and regards this as an essential prerequisite for responsible corporate management. The Executive Board and the Supervisory Board, as well as all the employees of the RATH Group, have undertaken to comply with the Code.

The Austrian Corporate Governance Code is based on voluntary self-commitment and goes beyond the legal requirements for a stock corporation. RATH follows the rules of the Code almost entirely.

The Code comprises three categories of rules:

1. Legal Requirement ("L") – this comprises mandatory legislation.

2. The "C" rules (Comply or Explain) should be observed; any deviation must be explained and justified in order to achieve compliance with the Code.

3. Recommendation rules ("R") comprise recommendations.

We comply with all the "L" and "C" rules. Deviations concern C Rule 16 – RATH AG currently does not have a CEO; C Rule 27 – currently there are no long-term targets against which the variable remuneration of the Executive Board is measured and no claw-back rules; C Rule 36 – in the business year 2018 the Supervisory Board did not carry out any self-evaluation.

The next self-evaluation is planned for the business year 2019; C Rule 39 – currently there is no committee authorized to decide in urgent cases, as this task is performed at the level of the full Supervisory Board; C Rule 43 – currently there is no annual information from the Chairman of the Supervisory Board to the General Meeting on the principles of the remuneration system;

C Rule 83 – in 2018, the auditors did not submit their own report to the Audit Committee on the effectiveness of risk management. The Corporate Governance Report of RATH AG also corresponds to the consolidated Corporate Governance Report of the RATH Group.

The ÖCGK in force for the business year 2018 (version: January 2018) can be found on the website of the Austrian Working Group for Corporate Governance (www.corporate-governance.at) as well as on that of RATH AG (www.rath-group.com).

RATH uses the Code of Corporate Governance of January 2018 to its full extent, with the following detailed explanations:

Composition of the Executive Board
As per 31-DEC-2018, the Executive Board of RATH AG consisted of two members. There is no chairperson.

CORPORATE GOVERNANCE REPORT STATEMENT PURSUANT TO § 243C AND § 267B OF THE UGB (AUSTRIAN COMMERCIAL CODE)

› MEMBERS OF THE EXECUTIVE BOARD

TITLE	NAME	FUNCTION	DATE OF BIRTH	INITIAL APPOINTMENT	END OF TERM OF OFFICE	SUPERVISORY BOARD MANDATES AND/OR COMPARABLE FUNCTIONS IN OTHER COMPANIES NOT INCLUDED INTO THE CONSOLIDATED FINANCIAL STATEMENTS
DI	Jörg Sitzenfrey	Member of the Executive Board	29-APR-1976	01-JAN-2013	31-DEC-2020	none
	Andreas Pfneiszl	Member of the Executive Board	01-DEC-1969	10-JUN-2013	31-DEC-2020	none

JÖRG SITZENFREY

Areas of responsibility

Board Member for Production and Technology

Assigned corporate functions

Research & Development, Purchasing and Information Technology

Group companies

Member of the Executive Board of RATH AG, member of the executive management of Aug. RATH jun. GmbH, member of the executive management of RATH Filtration GmbH

ANDREAS PFNEISZL

Areas of responsibility

Board Member for Sales and Finance

Assigned corporate functions

IR, Personnel and Law

Group companies

Member of the Executive Board of RATH AG, member of the executive management of RATH Filtration GmbH

CORPORATE GOVERNANCE REPORT STATEMENT PURSUANT TO § 243C AND § 267B OF THE UGB (AUSTRIAN COMMERCIAL CODE)

Composition of the Supervisory Board

The Supervisory Board of RATH AG consists of five members elected by the General Meeting.

› SUPERVISORY BOARD MEMBERS

TITLE	NAME	FUNCTION	DATE OF BIRTH	INITIAL APPOINTMENT	END OF TERM OF OFFICE	SUPERVISORY BOARD MANDATES AND/OR COMPARABLE FUNCTIONS IN PUBLICLY TRADED COMPANIES
Mag.	Stefan Ehrlich-Adám	Chairman of the Supervisory Board	19-MAY-1964	25-JUN-2013	Until the regular Annual General Meeting 2023	
CPA Mag.	Philipp Rath	Deputy Chairman	03-JUL-1966	17-JUL-2003	Until the regular Annual General Meeting 2023	
Mag.	Dieter Hermann	Member of the Supervisory Board	10-JAN-1966	25-JUN-2013	Until the regular Annual General Meeting 2023	
Dr.	Andreas Meier	Member of the Supervisory Board	10-JUL-1962	01-JUN-2016	Until the regular Annual General Meeting 2023	
Mag. Dr.	Ulla Reisch	Member of the Supervisory Board	22-APR-1968	28-MAY-2018	Until the regular Annual General Meeting 2023	
MMag.	Christian B. Maier	Member of the Supervisory Board	09-JAN-1966	27-JUN-2008	28-MAY-2018	Supervisory Board UBM Development AG
Mag.	Karin Bauer-Rath	Member of the Supervisory Board	06-MAY-1961	01-JUN-2016	28-MAY-2018	

Diversity

The members of the Supervisory Board are selected on the basis of their professional qualifications, personal competence and many years of experience in management positions. In addition, aspects of diversity, internationality, representation of genders and age structure of its members are taken into account as much as possible. There is one female member on the Supervisory Board, and the overall portion of women thus amounts to 20 %. All the members are Austrian citizens.

CORPORATE GOVERNANCE REPORT STATEMENT PURSUANT TO § 243C AND § 267B OF THE UGB (AUSTRIAN COMMERCIAL CODE)

When selecting the members of the Executive Board, the Supervisory Board ensures that long-term succession planning is adhered to. In the opinion of the Supervisory Board, the basic suitability criteria for the screening of candidates for a position on the Executive Board are their professional qualifications for the portfolio to be assumed, convincing leadership qualities, previous performance, and knowledge of the company. Setting aside these criteria, women and men are equally considered in the selection process! In making its decision, the Supervisory Board contemplates the following aspects:

1. The members of the Executive Board should have many years of management experience and, if possible, experience in various professions.

2. At least one member of the Executive Board should have a technical background or many years of technical professional experience.

3. The Executive Board as a whole should have many years of experience in the areas of production, sales, finance and personnel management.

No target figure is set for the proportion of women on the Executive Board. The Supervisory Board decides on the specific filling of the Executive Board positions in the interests of the Company and exclusively on a case-by-case basis, taking into account professional and personal qualifications.

Currently, no member of the Executive Board of RATH AG is female; one member of the Supervisory Board is. Women hold leading positions in numerous departments of the first and second reporting level. The portion of female employees in the overall staff as per 31-DEC-2018 was 18.7 % (previous year: 18.7 %). The RATH Group supports and promotes employment of women in all departments, in particular in technical areas. However, the RATH Group is very often confronted with the situation that in many countries there are still significantly fewer women than men in technical occupations or professions. The RATH Group therefore supports various initiatives to inspire women to take up a technical profession or to start studying technology. This includes regular participation in various events such as recruitment and career orientation days for young women at universities and colleges. The RATH Group also takes measures and makes investments to promote compatibility of career and family. Furthermore, the recruiting process is highly focused on strictly equal treatment of the genders. However, despite all efforts to promote female employees the RATH Group will refrain from anything that would lead to discrimination against men.

Independence of the Supervisory Board members

All members of the Supervisory Board who are not in a business or personal relationship with RATH AG or its Executive Board that would constitute a material conflict of interest and thus have the potential to influence the respective member's behavior, are regarded as "independent" in the sense of the general clause of regulation 53. The criteria of the Code of Corporate Governance Annex 1 are used as a benchmark. According to these criteria, CPA Mag. Philipp Rath, Deputy Chairman of the Supervisory Board of RATH AG, is to be classified as dependent.

CORPORATE GOVERNANCE REPORT STATEMENT PURSUANT TO § 243C AND § 267B OF THE UGB (AUSTRIAN COMMERCIAL CODE)

Report on the remuneration of the Executive Board and Supervisory Board

The remuneration of the Executive Board comprises fixed and variable/success-related components, whereby the amount of the variable remuneration is limited to 50 % of the basic remuneration. Any amount exceeding this is credited as variable remuneration to the subsequent years. If the consolidated result falls below a defined minimum amount, this gives rise to a penalty, which is also carried forward to subsequent years and leads to a reduction in future variable salary components. C Rule 27.2 is currently not observed with regard to the long-term nature of variable/success-dependent elements. C Rule 27.5 with regard to claw-back is currently not observed either.

The variable/success-related remuneration for 2018 was regulated as follows:

› VARIABLE/SUCCESS-RELATED REMUNERATION

IN K€	PORTION	THEREOF PORTION	ACTUAL	TARGET	TARGET MAX.	RANGE
Monetary targets 2018	**70 %**					
Sales-related		20 %	94,488	88,453		80 % to 120 %
Profit-related						
EBITDA		40 %	12,729	11,017		90 % to 120 %
WC Ratio		10 %	30 %	31.4 %		90 % to 115 %
Individual goals 2018	**30 %**					
Strengthening of the organization		50 %				
Acquisition process		50 %				
Overall target achievement	**100 %**		**92**	**84**	**105**	

Other remuneration relates to payments made by RATH AG to the Executive Board for a life insurance policy.

The members of the Executive Board were granted entitlements to pension benefits – life insurance. These are paid by RATH AG to the insurance company once a year. The amount of the pension entitlement is contractually fixed at € 10,000 p.a. per Executive Board member and is not subject to indexation/increase in value. In the event of premature termination of the employment relationship, the contributions paid up to this point in time become vested for the Executive Board. At RATH AG, remunerations dependent on success are not implemented via stock options but are dependent on varying success criteria. Part of this is a predefined target achievement regarding the company result and qualitative and quantitative goals. Some parts of the total remuneration of the Executive Board in 2018 were fixed, others were variable/success-dependent. In case of a function termination by the Executive Board, no claims or entitlements beyond the statutory requirements can be made or requested. No advances or loans were granted to members of the Executive Board of RATH AG.

CORPORATE GOVERNANCE REPORT STATEMENT PURSUANT TO § 243C AND § 267B OF THE UGB (AUSTRIAN COMMERCIAL CODE)

› EXECUTIVE BOARD REMUNERATIONS

TITLE	NAME	FUNCTION	FIXED €	VARIABLE €	OTHER REMUNERATIONS	TOTAL 2018
DI	Jörg Sitzenfrey	Member of the Executive Board	210,000	90,000	10,000	310,000
	Andreas Pfneiszl	Member of the Executive Board	210,000	90,000	10,000	310,000
						Total remuneration of the Executive Board **620,000**

TITLE	NAME	FUNCTION	FIXED €	VARIABLE €	OTHER REMUNERATIONS	TOTAL 2017
DI	Jörg Sitzenfrey	Member of the Executive Board	205,000	86,000	10,000	301,000
	Andreas Pfneiszl	Member of the Executive Board	205,000	86,000	10,000	301,000
						Total remuneration of the Executive Board **602,000**

The Supervisory Board remuneration (including attendance fees) for the business year 2018, conditioned on the approval of the General Meeting, amounts to a total of k€ 70 (previous year: k€ 80) distributed among the Members of the Supervisory Board as follows:

› SUPERVISORY BOARD REMUNERATIONS

TITLE	NAME	REMUNERATION INCL. ATTENDANCE FEES €
Mag.	Stefan Ehrlich-Adám (Chairman of the Supervisory Board)	16,600
CPA Mag.	Philipp Rath (Vice Chairman)	14,600
Dr.	Andreas Meier	11,600
Mag.	Dieter Hermann	10,900
Mag. Dr.	Ulla Reisch	6,367
MMag.	Christian B. Maier	5,034
Mag.	Karin Bauer-Rath	4,534

CORPORATE GOVERNANCE REPORT
STATEMENT PURSUANT TO § 243C AND § 267B OF THE UGB (AUSTRIAN COMMERCIAL CODE)

› BASIC REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

DESIGNATION	BASIC REMUNERATION €
Chairman	12,000
Deputy	10,000
Member	8,000
Supervisory Board meeting	600
Strategy Committee	600
Audit Committee	500
Remuneration Committee	0

The remunerations for Members of the Supervisory Board consist of fixed and attendance-dependent components. The fixed element consists of a total amount, and the second element of an attendance fee which is determined by a fixed amount per meeting that a member participates in.

RATH AG has taken out directors' and officers' liability insurance (D&O insurance) for the management, Supervisory Board, Executive Board, managing directors and executives of the RATH Group. The policy-holder is RATH AG, the costs are borne by the company. The D&O insurance covers certain personal liability risks of the responsible persons of the RATH Group. The annual costs amount to around € 9,435.

Committees and activities of the Supervisory Board

The Supervisory Board of RATH AG consists of experts from different disciplines and conducts regular meetings dealing, among other things, with strategic matters and balance sheet affairs. Within this framework, the Supervisory Board of RATH AG is involved as an advising body in all basic decisions of the Executive Board.

RATH AG has an Audit Committee, a Strategy Committee and a Remuneration Committee.

The following members of the Supervisory Board have been members of the Audit Committee since the General Meeting on 28-MAY-2018:

Mag. Ehrlich-Adám as Chairman, Mag. Philipp Rath, Dkfm. Dieter Hermann and Mag. Dr. Ulla Reisch. In 2018, the Audit Committee held two meetings in which the preparation and analysis of the annual financial statements and the internal control, revision and risk management systems were discussed. The annual auditor participated in both meetings.

CORPORATE GOVERNANCE REPORT STATEMENT PURSUANT TO § 243C AND § 267B OF THE UGB (AUSTRIAN COMMERCIAL CODE)

The following members of the Supervisory Board are on the Strategy Committee:

CPA Mag. Philipp Rath as Chairman, Mag. Ehrlich-Adám, Mag. Dieter Hermann, Dr. Andreas Meier.
In 2018, the Strategy Committee held one meeting discussing organic and inorganic growth potentials.

The Remuneration Committee consists of Mag. Ehrlich-Adám as Chairman, CPA Mag. Philipp Rath and Dr. Andreas Meier. At its meeting in 2018, the Committee dealt with and defined the achievement of the 2017 targets and the new targets for the 2018 marketing year.

The duties of the Supervisory Board are governed by the Articles of Association and by applicable law. The Supervisory Board performed its duties in six regular meetings, including one inaugural meeting. At the inaugural meeting of the Supervisory Board, the members of the individual committees were elected. At the meeting on 06-MAR-2018, the past 2017 business year and on its current business situation in 2018 of the RATH Group were reported on. Further priority areas of the Supervisory Board meetings were presentations about our production facilities and an update on our "DRIVE" growth strategy with regard to acquisitions. At the Supervisory Board meeting on 11-APR-2018, the results of the audit of the annual financial statements of RATH AG and of the consolidated financial statements including an unqualified Auditor's Certificate were noted. Furthermore, in preparation for the General Meeting, the report of the Supervisory Board was adopted, and the agenda items for the 29th General Meeting were defined and the individual resolution proposals approved.

The current business situation as per Q1-2018 was also reported. On the day of the General Meeting, 28-MAY-2018, the Supervisory Board meeting was presented with the report on the current business situation of the RATH Group, and discussed the individual items of the General Meeting. On 10-SEP-2018, the current business situation of the RATH Group in 2018 was reported, and an overview of the productions was given. At the last Supervisory Board meeting in 2018, on 17-DEC-2018, the budget for 2019 and the planning years 2020 to 2023 were discussed and adopted in addition to the report on the business situation. In addition, there were presentations on the new organizational project "APOLLO".

The Audit Committee held two meetings. On 11-APR-2018, it focused on the preparation and audit of the Company's consolidated and individual financial statements, and on 17-DEC-2018, it focused on the main areas of the audit and the auditor's planning for 2018.

Other topics included the effectiveness and operating mode of the internal control system, risk management and specific accounting issues.

The Remuneration Committee met on 07-FEB-2018. The focus was on achieving the 2017 target agreement and the 2018 target agreement discussion with the members of the Executive Board.

CORPORATE GOVERNANCE REPORT STATEMENT PURSUANT TO § 243C AND § 267B OF THE UGB (AUSTRIAN COMMERCIAL CODE)

The Strategy Committee held one meeting in 2018. At its meeting on 18-OCT-2018, the Supervisory Board dealt with the implementation of the “BOOST 2020” site project, the “APOLLO” organizational project, and a status report on the acquisitions.

The attendance rate was 93 %. No advances or loans were granted to members of the Supervisory Board of RATH AG.

Report on Rule C 49

In 2018, the Supervisory Board decided to commission the external auditing company Rödl & Partner Vienna, Austria with the ICS audit of the American subsidiary RATH USA Inc. In the auditing company Rödl & Partner, a member of the supervisory board, CPA Mag. Philipp Rath, is a partner. The consultation fee amounted to € 23,400. The ICS audit focused on customer order processes, in particular in connection with revenue recognition in accordance with IFRS 15. The results of the ICS audit were brought to the attention of the Supervisory Board.

At the beginning of 2019, Rödl & Partner Atlanta, USA, was commissioned with the due diligence of a target company. CPA Mag. Philipp Rath is a partner of the affiliated company Rödl & Partner, Vienna, Austria. An upper limit of max. $ 62,000 was assumed by RATH AG for the consulting fee.

Auditor

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, was elected as independent auditor of the annual financial statements and consolidated financial statements of RATH AG for 2018 at the 29th Annual General Meeting of RATH AG held on 28-MAY-2018.

External evaluation

According to Rule 62 of the Austrian Corporate Governance Code, compliance with the provisions of the Code should be evaluated externally on a regular basis, i.e. at least every three years. An external evaluation was carried out by PwC Wirtschaftsprüfung GmbH, Vienna, for the reporting year 2018. The results of the evaluation are as follows:

“The evaluation did not reveal any facts that might lead to the assumption that, on the one hand, the corporate governance report of the company does not comply with the legal provisions of the Austrian Commercial Code (§ 243c of the UGB) in all material respects and, on the other hand, that the declaration of compliance of the company does not correctly represent, in all material respects, the implementation of and compliance with the relevant rules of the Austrian Corporate Governance Code in the version of January 2018.”

In accordance with Rule 62 of the Austrian Corporate Governance Code, the next external evaluation is planned for the 2022 business year.

CORPORATE GOVERNANCE REPORT STATEMENT PURSUANT TO § 243C AND § 267B OF THE UGB (AUSTRIAN COMMERCIAL CODE)

Compliance

Compliance is a central component of good corporate governance and a basic prerequisite for sustainable corporate success. We have a comprehensive compliance system, which is described in our Sustainability Report.

Changes after the balance sheet date

There were no material changes between the balance sheet date and the date of preparation of the corporate governance report.

The Executive Board

VIENNA, 24-APR-2019

Andreas Pfneiszl

DI Jörg Sitzenfrey

STATEMENT BY ALL LEGAL REPRESENTATIVES PURSUANT TO § 82 IV 3 OF THE BÖRSEGESETZ (AUSTRIAN STOCK EXCHANGE ACT)

STATEMENT BY ALL LEGAL REPRESENTATIVES PURSUANT TO § 82 IV 3 OF THE BÖRSEGESETZ (AUSTRIAN STOCK EXCHANGE ACT)

We confirm to the best of our knowledge that the consolidated financial statements as per 31-DEC-2018 established according to the International Financial Reporting Standards (IFRS) in the European Union (EU) provide a maximally faithful representation of the Group's assets, financial and earnings position, and that the consolidated management report as per 31-DEC-2018 presents the business performance, the company results and the situation of the Group so as to give a maximally precise representation as possible of the Group's assets, financial and earnings position, and that the consolidated management report describes the main risks and uncertainties faced by the Group.

We confirm to the best of our knowledge that the parent company's annual financial statements as per 31-DEC-2018, established according to the UGB (Austrian Commercial Code), give as accurate a representation as possible of the company's assets, finances and income, and that the management report as per 31-DEC-2018 presents the business performance, the company results and the situation of the company so as to give a maximally precise representation as possible of the assets, financial and earnings position, and that the management report describes the main risks and uncertainties faced by the company.

The results of the business year ending on 31-DEC-2018 are not necessarily indicative of the development of future results.

VIENNA, 24-APR-2019

The Executive Board

Andreas Pfneiszl

DI Jörg Sitzenfrey

REPORT OF THE SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD

Mag. Stefan Ehrlich-Adám, Chairman of the Supervisory Board

DEAR SHAREHOLDERS,

In the business year 2018, the Supervisory Board once more performed the tasks for which it is responsible under the law, the Articles of Association, and the rules of procedure. We supervised the work of the members of the Executive Board and provided them with advice. The Executive Board informed us promptly and comprehensively about the competitive environment, the business performance, and the intended business policy, as well as all important strategic and operational decisions. Major investment projects, planned Group financing measures and acquisition projects were agreed with us. As Chairman of the Supervisory Board, I reviewed the minutes of the Executive Board meetings and discussed current business developments with the Executive Board on an ongoing basis. The Supervisory Board was involved into all decisions of significance. In the reporting year 2018, the Executive Board and the Supervisory Board exchanged information during six meetings (five regular meetings, one inaugural meeting), consulting on the economic situation and the strategic development of our Group, as well as on important events, investments and actions. During all meetings, the Supervisory Board was, in the context of regular reporting, informed by the Executive Board about the major matters of executive management, the course of business and the economic situation of the company. Thus, the Supervisory Board was given ample opportunity to comply with its obligation to inform and supervise. We have thereby fulfilled our legal obligations and those laid out in our Articles of Association. We have advised the Executive Board regarding the management of the company and supervised the activities of the executive management. There were no reasons for complaints concerning the activities of the Executive Board.

Supervisory Board Meetings

During the year under review, the Supervisory Board and Executive Board extensively discussed all relevant issues affecting the development of the business, including risk situation and risk management within both the company itself and its affiliates. The Executive Board has kept the Supervisory Board informed in the course of reports generated on an ongoing basis by the reporting system, and on the basis of detailed reports on the business and financial position of the Group, the personnel situation and the potential investment and acquisition projects. Special events were reported separately. The committees of the Supervisory Board reported on their activities at the Board's meetings. Six regular meetings (including the inaugural meeting of the Supervisory Board) were held during the business year 2018. All but a few members participated personally in all meetings. In the meeting of March 2018, the past business year was reported on. The progress report about the Directive on Compliance for Issuers was duly noted. At the meeting in April 2018, the annual financial statements 2017 and management report 2017 as well as the consolidated financial statements and management report 2017 were reviewed, the annual financial statements 2017 were assessed as recommended by the Audit Committee, and the proposal for the distribution of profits from the business year 2017 was approved. Furthermore, the proposal for selection of an annual auditor was agreed upon, the General Meeting was prepared, and the current state of business was reported on. The meeting in May 2018 was mainly used for the preliminary discussion regarding the General Meeting. During the inaugural meeting, which took place on the same day after the General Meeting, the meeting dates for 2018/2019 were finalized.

REPORT OF THE SUPERVISORY BOARD

In the meeting in September 2018, the semi-annual financial report was discussed, and deliberations were also held on the current business situation. In the final meeting of the year in December 2018, the budget incl. investments for 2019 as well as the medium-term plan until 2023 were approved.

Committees

The Supervisory Board established three committees during the year under review. The Audit Committee met twice in 2018. In April 2018, the Audit Committee carried out the final meeting for the business year 2017 in the presence of the annual auditor. The annual financial statements and management report as well as the consolidated financial statements and management report were reviewed, and the Supervisory Board was given the recommendation to approve the annual financial statements and (in the absence of the financial auditor) the selection of the financial auditor. In the meeting in December 2018, the auditors reported on the status of the preliminary audit of the annual financial statements and consolidated financial statements. The Strategy Committee met once in 2018. The focus of the meeting in October 2018 was the growth strategy "DRIVE", in particular potential acquisition projects of the RATH Group. The Remuneration Committee met in February 2018. The focus was on determination of the achievement of the objectives of the Executive Board's in 2017 as the basis for the variable remuneration component, and on the setting of the targets for 2018.

Annual financial statements

The annual financial statements of RATH AG as per 31-DEC-2018, and the management report by the Executive Board as well as the consolidated financial statements as per 31-DEC-2018 according to the IFRS, and the consolidated management report by the Executive Board were audited with regard to accounting and provided with an unqualified Auditor's Certificate by KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (auditing and tax consultancy firm), Vienna; this company had been selected by the General Meeting on 28-MAY-2018. The Audit Committee of the Supervisory Board analyzed the findings of the audit in cooperation with the auditors during the meeting on 24-APR-2019, and recommended approval of the annual financial statements to the Supervisory Board. By resolution of 24-APR-2019, the Supervisory Board approved the consolidated financial statements.

The Supervisory Board has reviewed the documents according to § 96 of the AktG (Austrian Stock Corporation Act) as well as the Corporate Governance report, and approved the annual financial statements which are therefore established pursuant to § 96 IV of the AktG; the Supervisory Board has also reviewed and approved the proposal for the appropriation of profits submitted to it by the Executive Board. The final result of the audits gave no reasons for complaints.

VIENNA, 24-APR-2019

Mag. Stefan Ehrlich-Adám
Chairman of the Supervisory Board

CONSOLIDATED MANAGEMENT REPORT

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ECONOMIC ENVIRONMENT

According to the WIFO study, the Austrian economy grew by only 0.4 % in Q4-2018 compared to Q3-2018. As a result, a slowdown in growth can be observed in the second half of 2018. Industrial activities lost vitality in the course of the year. The GDP increased by 2.7 % in 2018 compared to the previous year.[1]

According to the OeNB's macroeconomic forecast for Austria, the Austrian economy has achieved a stable state of growth after the boom. Thanks to strong domestic demand and solid exports, the OeNB, like WIFO, recorded real GDP growth of 2.7 % for 2018. For the years 2019 to 2021, growth is expected to decline to 2.0 % (2019), 1.9 % (2020) and 1.7 % (2021) in line with the slowdown in the international economy.[2]

The global economy is still in an upswing phase, supported by strong growth in the USA. Not only the industrialized countries, but also the emerging markets are growing steadily. The OeNB expects global production output to remain stable over the next few years. However, global trade is showing signs of weakening. This is mainly due to the trade conflict between the USA and China. The Austrian export economy developed well in 2018 despite the slowdown in export demand after the boom year of 2017. Exports of goods to the CESEE countries in particular represent a mainstay, growing at a nominal rate of +10 % in 2018, hence almost twice as fast as other exports of goods. In the years 2019 to 2021, the increase in exports will be just below 4 % and thus continue to drive the domestic economy. Austrian industry continues to expand its investments thanks to the good sales opportunities on the international markets. The year 2018 continued the 4.1 % growth in equipment investments. This makes the investment cycle exceptionally strong compared to previous years.

However, political risk factors such as the future direction of US trade policy still need to be taken into account. Further escalation of the trade conflict with China cannot be ruled out, nor can renewed trade tensions with the European Union. In Europe, there are uncertainties regarding the economic policy course of the Italian government and a resulting conflict with the European Commission. Of course, the impact of the Brexit negotiations must also be taken into account. The Austrian risks, on the other hand, are overall assessable.

BUSINESS LINES

The RATH Group is a member of the Austrian Association of the Bricks and Ceramics Industry, which reported an increase in turnover by 4.6 % to € 3.52 bn in 2018. However, analysis of the economy also showed that increasing raw material, energy, logistics and personnel costs had a massive impact on earnings. Nevertheless, the number of employees could be increased by 2.8 %.

The export-oriented refractories industry grew by +13 %, the ready-mixed concrete industry by +12.1 %, and the concrete and pre-cast concrete industry by +6.3 %. All three sub-sectors thus grew above the industry average. Below the average were the bulk materials broken stone (+1.9 %) and sand and gravel

[1] cf. WIFO Business Portal, https://konjunktur.wifo.ac.at/index.php?id=73, most recently retrieved on 23-MAR-2019.

[2] cf. OeNB, https://www.oenb.at/Geldpolitik/Konjunktur/prognosen-fuer-oesterreich/gesamtwirtschaftliche-prognose.html; most recently retrieved on 23-MAR-2019.

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(+0.4 %), as well as the plaster and mortar industry (+0.8 %). The fine ceramics industry (-4.2 %), the lime industry (-2.3 %) and the natural stone industry (-2.0 %) suffered losses.

Logistics costs (transport and fuel), increasing by 15 %, had a negative impact on industry. The CO_2 prices quadrupled during the last year. Electricity prices also rose by up to 30 % due to the separation of the electricity price zone Germany-Austria. Despite rising costs, the association has a positive outlook on 2019 and anticipates further increases in sales.

Within the RATH Group, we stratify our customers and their applications according to industries/business lines. This structure supports our customers in always selecting the best refractory solution. Our Engineering department designs the optimal lining, and in cooperation with our field service the solutions are discussed with the customer, produced, provided and handed over.

METALS

In the "METALS" business line, we deal with inquiries from the steel and aluminum industries. In the business year 2018, due to strong demand we were able to generate a share of sales of 31 % (previous year: 26 %).

The RATH Group provides our customers with a broad product portfolio. Our customers are served worldwide, as they usually operate globally. Geographically, the main market areas are Europe, the Middle East, Asia and the USA.

The economic data show a flattening of demand in this industrial sector in 2019. Here the politically motivated punitive tariffs, sanctions and the forthcoming Brexit have a particularly significant effect. The products of our customers are therefore becoming more expensive, and there is thus less demand on the world market.

Our expectation for the business year 2019 in this business line is slightly negative. From today's perspective, we assume that there will be a decline in sales by 3 %.

FUELS, CHEMICALS & ENERGY

In the "FUELS, CHEMICALS & ENERGY" business line, we deal with inquiries from industries such as titanium chloride pigment production, wood-based materials production, biomass plants, and petrochemical plants. In the business year 2018, we were able to generate a share of sales of 22 % (previous year: 24 %).

Here, the RATH Group offers a broad and very application-oriented product portfolio. Geographically, the main market area is Europe and the USA, followed by Asia.

The economic data for 2019 show a slight increase in demand in this industrial sector.

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SECTOR SHARES IN THE BUSINESS YEAR 2018

- 31 % Metals
- 22 % FC & Energy
- 18 % Ceramics
- 16 % Special Furnaces
- 7 % Domestic Fireplaces
- 6 % Glass

SECTOR SHARES IN THE BUSINESS YEAR 2017

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

Our expectation for the business year 2019 in this business line is positive. From today's perspective, we assume that there will be an increase in sales by at least 1 %.

CERAMICS

In the "CERAMICS" business line, we handle inquiries from industries for the production of sanitary ware, tableware, construction and technical ceramics. In the business year 2018, we were able to generate a share of sales of 18 % (previous year: 19 %).

The RATH Group provides our customers with a broad product portfolio of high-temperature bricks and high-temperature fibers. Geographically, the main market areas are Europe, the USA and Asia.

Economic data continue to show stable demand in this industrial sector.

Our expectation for the business year 2019 in this business line is positive. From today's perspective, we assume that we will be able to maintain our current turnover.

SPECIAL FURNACES

In the "SPECIAL FURNACES" business line, we handle inquiries from industries in the field of dental furnace manufacturers, laboratory furnace manufacturers, and other special-application customers. In the business year 2018, the share of sales decreased to 16 % (previous year: 18 %). Here, the RATH Group provides our customers with the product line of vacuum-formed products. Geographically, the main market areas are Europe, the USA and Asia.

Economic data continue to show stable demand in this industrial sector.

Our expectation for the business year 2019 in this business line is positive. From today's perspective, we assume that there will be an increase in sales by at least 1 %.

DOMESTIC FIREPLACES

In the "DOMESTIC FIREPLACES" business line, we handle inquiries from the pottery trade in the DACH region plus Hungary, the Czech Republic and Poland. In the business year 2018, we were able to generate a share of sales of 7 % (previous year: 8 %).

Here, the RATH Group provides the traditional fireclay products to our customers. Geographically, the main market area is Europe.

The economic data show weak demand in this industrial sector.

Our expectation for the business year 2019 in this business line is negative. From today's perspective, we assume that there will be a decline in sales by 1 %.

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GLASS
In the "GLASS" business line, we handle inquiries from industries such as container glass and flat glass production. In the business year 2018, due to strong demand we were able to generate a share of sales of 6 % (previous year: 5 %).

Here, the RATH Group primarily provides pre-cast blocks for our customers. Geographically, the main market areas are Europe, the USA and Asia.

Economic data continue to show stable demand in this industrial sector.

Our expectation for the business year 2019 in this business line is positive. From today's perspective, we assume that there will be a further sales increase of at least 1 %.

BUSINESS PERFORMANCE 2018

In the business year 2018, the RATH Group achieved its best result since going public in 1989. Not only were we able to increase turnover significantly, but we also achieved significant gain in market shares. Our strategic orientation paired with premium niche products and high-quality services as well as good economic demand formed the basis for the successful business year of the RATH Group.

In the following, you will find a representation of the four quarters from the 2018 economic year:

2017	2018	Q4	Q3	Q2	Q1	KEY FIGURES ‹
86,338	94,488	23,128	24,017	26,229	21,114	Turnover in k€
10,395	12,729	3,441	3,192	3,093	3,003	EBITDA in k€
12.0 %	**13.5 %**	**14.9 %**	**13.3 %**	**11.8 %**	**14.2 %**	**EBITDA margin**
6,237	8,422	2,280	2,114	2,045	1,983	EBIT in k€
7.2 %	**8.9 %**	**9.9 %**	**8.8 %**	**7.8 %**	**9.4 %**	**EBIT margin**
536	549	549	548	547	553	Employees in Ø
17.50	24.00	24.00	24.80	21.00	18.20	Share price in €

SALES DEVELOPMENT
The RATH Group again recorded strong growth in the business year 2018 and achieved the highest group turnover since its foundation!

Group revenues increased by k€ 8,150 or 9 % year-on-year to k€ 94,488 (previous year: k€ 86,338). In total, Group turnover increased by k€ 14,182 or 18 % in the last two years. The RATH Group is managed through our national companies and segments. Below find the sales development, broken down by companies.

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Aug. RATH jun. GmbH Krummnußbaum markedly increased its turnover by 13 % to k€ 27,361 (previous year: k€ 24,314). The increase in turnover was mainly due to orders from the steel industry, especially from the field of quenching and tempering furnaces. Geographically, the market area, broken down by the locations of our customers, was mainly in Europe and the Middle East. A further increase in sales comes from the FUELS, CHEMICALS & ENERGY sector, in particular from the area of refuse incineration plants in Europe. At the same time, we were able to keep deliveries of goods with a service component (formerly project business) stable.

RATH GmbH Meißen with its three plants in Mönchengladbach, Bennewitz and Meißen was able to significantly increase turnover. The growth in turnover by 17 % to k€ 34,294 (previous year: k€ 29,218) is mainly attributable to strong demand from the ceramics industry. Our market area here is primarily in Europe. Due to strong demand, our orders for goods deliveries with a service component (formerly project business) increased by 27 % to k€ 14,906.

RATH Hungaria kft. could almost repeat the turnover success of the previous year and achieved a sales volume of 11,431 k€ (previous year: k€ 12,052). The turnover originates mainly from the steel and glass industries. The market areas here are Europe and the Middle East. In the current business year, the high turnover from the delivery of goods with a service component (formerly project business) of the previous year declined to k€ 3,254 (previous year: k€ 5,980).

RATH USA Inc., with its two plants in Newark and Milledgeville, could keep its turnover at k€ 14,166 (previous year: k€ 14,387), almost identical to the previous year. The customers are mainly from the business lines FUELS, CHEMICALS & ENERGY and SPECIAL FURNACES. The main market area is North America. In the current business year, turnover from the delivery of goods with a service component (formerly project business) of the previous year shrunk to k€ 1,521 (previous year: k€ 2,560).

Our sales companies in Europe and Mexico were able to increase their turnover by 14 % to k€ 7,237 (previous year: k€ 6,367). This increase is mainly attributable to our Polish sales company to the amount of k€ 1,907 (previous year: k€ 929) and the Austrian sales company to the amount of k€ 1,541 (previous year: k€ 1,080). Here we mainly supply the steel and chemical industries, with Europe and Asia being the leading sales market.

EARNINGS DEVELOPMENT

The profitability of the RATH Group has increased significantly and reached its highest level since the IPO. Although we have to contend with strong price increases from our suppliers (raw materials and merchandise), we have succeeded in achieving a significant increase in earnings through higher sales prices and more efficient use of resources and materials, and through the very positive development of the "Filtration" product family.

Gross profit remained unchanged at 54 % (previous year: 54 %). Operating income before interest, taxes, depreciation and amortization (EBITDA) rose to an impressive k€ 12,729 (previous year: k€ 10,395), the

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margin is thus an impressive 13.5 % (previous year: 12 %). Earnings before interest and taxes (EBIT) also increased to k€ 8,422 (previous year: k€ 6,237), the margin is an impressive 9 % (previous year: 7 %).

Staff costs rose by 7 % to k€ 27,819 (previous year: k€ 26,091), while at the same time the ratio of personnel expenses to turnover improved to 29 % (previous year: 30 %). This shows that on the one hand we are continuing to expand our organization, but at the same time we are not neglecting our ratio to turnover. Growth in turnover alone is not healthy in the long term; this must go hand in hand with a strengthening of the organization, and we have implemented this.

The other operating expenses remained unchanged at k€ 11,110 (previous year: k€ 11,262), almost identical to the same period of the previous year.

The financial result at the end of the reporting year was k€ -253 (previous year: k€ -3,347). The main reason for this significant improvement is the weakening of our common currency, the euro, against the US dollar. The non-cash valuation of the €/$ currency pairs generates yields of k€ 460 (previous year: k€ -2,455). Interest expenses in business year 2018, mainly from the promissory note bond, amounted to k€ 711 (previous year: k€ 897). In the course of the business year, our 2008 interest rate swap expired after a term of 10 years. As a result, the RATH Group achieved a result from ordinary activities to the amount of k€ 8,170 (previous year: k€ 2,891). The consolidated result after taxes amounted to k€ 5,864 (previous year: k€ 2,371).

Due to the strong consolidated result for 2018 and the still good outlook for the business year 2019, the Executive Board and Supervisory Board will propose a dividend payout to the amount of € 1.0 per no-par share to the next General Meeting. This is equivalent to a return on investment of 4.2 % as per 31-DEC-2018.

ASSETS AND FINANCIAL POSITION

In the business year 2018, the balance sheet total increased by k€ 8,407 to k€ 106,756 (previous year: k€ 98,349). This is primarily due to the increase in current assets, and this in turn to the cash reserve. Furthermore, long-term assets have also increased as a result of our continuous investment activity in our plants.

The share of non-current assets in the total assets declined slightly year-on-year and amounted to 39 % at the end of 2018 (previous year: 41 %). The financial and intangible assets developed neutrally. The increase in property, plant and equipment is explained by additions to fixed assets. As per the reporting date, property, plant and equipment accounted for 61 % of capital employed (previous year: 58 %). Deferred tax assets amount to k€ 1,385 (previous year: k€ 2,032), which mainly relate to the capitalization of loss carryforwards in Austria and the USA.

The working capital (inventory plus receivables from goods and services minus contract liabilities minus liabilities from goods and services) decreased by 6 % to k€ 28,301 (previous year: k€ 30,033). This

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reduction leads to a noticeably better ratio of working capital to turnover of 30.0 % (previous year: 34.8 %) and is thus well below the defined threshold of 40 %. As per the reporting date 31-DEC-2018, cash and cash equivalents totaled k€ 25,468 (previous year: k€ 19,569). These funds are an essential component of a strong liquidity reserve to finance our growth targets from our "DRIVE" corporate strategy.

During the last year, the Group's consolidated equity increased by 10 % to k€ 48,351 (previous year: k€ 43,989). This change was primarily attributable to the strongly improved result after income taxes of k€ 5,864 (previous year: k€ 2,371). The other total income includes changes in actuarial gains after taxes in connection with pensions and severance payments to the amount of k€ 192 as well as currency differences. The capital ratio amounts to 45.3 % (previous year: 44.7 %).

Long-term personnel provisions remained stable at k€ 3,183 (previous year: k€ 3,192) although a low interest rate of 1.05 % (previous year: 2.0 %) for pensions, of 1.50 % (previous year: 2.0 %) for severance payments and of 2.0 % (previous year: 2.0 %) for anniversary bonuses was used and furthermore new calculation tables (mortality tables) were to be applied in Austria, which take into account the longer life expectancy. Financial liabilities decreased by k€ 480 to k€ 39,970 (previous year: k€ 40,450) and comprise liabilities to banks as well as leasing obligations.

The repayments of financial liabilities were funded from the free cash flow generated. These liabilities are matched by liquid resources and securities of k€ 26,174 (previous year: k€ 20,299). Of the interest-bearing liabilities to the amount of k€ 39,970, 7 % (previous year: 1%) are short-term and 93 % (previous year: 99 %) long-term in nature.

Deferred tax liabilities decreased slightly from k€ 113 to k€ 101.

In 2018, new indebtedness fell to k€ 14,501 (previous year: k€ 20,150). The cash flow from ongoing operating activities increased to k€ 12,979 in the past year due to a reduction in working capital (previous year: k€ 10,148). The cash flow from investments amounts to -5,479 k€ (previous year: k€ -5,788). The cash flow from financing activities to the amount of k€ -1,617 (previous year: k€ 11,754) includes the repayment of financial liabilities and the disbursement of dividends

At the end of 2018, the debt repayment period (net debt/EBITDA) was 1.1 years in contrast to 1.9 years in the previous year. EBIT interest coverage was 10.5 (previous year: 7.1).

SUSTAINABLE FINANCING STRATEGY

For years, the Group's financing has been following the principles of maintaining secured liquidity as well as an equity base that is as high as possible. In the previous year 2017, the funding of the Group was changed from mainly short-term loans to long-term financial liabilities. A promissory note bond with a term of 5 years to 2022 and 7 years to 2024 was issued and subscribed for.

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EMPLOYEES

Highly trained and motivated employees represent the key factor for the success of the RATH Group. Through their high technical and social expertise, they ensure excellent product quality and high service level, and are an important driver for the future. Our success is due on the one hand to the dedication to innovative refractory solutions that we implement in our products and technologies, and on the other hand to the huge commitment and loyalty of our employees. As per 31-DEC-2018, the RATH Group employed a total of 500 people on an "FTE" basis ("full-time equivalent") (previous year: 516).

The RATH Group does not have a stock option program. Management, leading employees and other key employees are included in locally differing premium models. Staff management tasks are carried out according to the central requirements of the parent company and then transferred to the subsidiaries. Strategic tasks in the field of Human Resources are within the responsibility of the CFO. In 2018, the "filantHRopos" project was launched. Our focus here is on establishing a centrally organized HR structure. Within the scope of the project, all processes of an employee life cycle are raised to a more professional level, entirely in the sense of a modern management approach. The sub-areas of the employee life cycle comprise the company's attractive presentation on the labor market, targeted and efficient recruiting, the rapid integration of new employees into the work process, the continuous and targeted further development of employees, and the value-enhancing structuring of employee departures. Within the individual phases, existing processes are analyzed, revised and optimized, and new processes are implemented.

The essential part of the project is the establishment of targeted talent and competence management. In order to remain competitive on the market as a company, it is necessary to recognize the competencies of existing employees, develop them further, and deploy them ideally. Ensuring knowledge transfer is a basic requirement, especially in our very exclusive industrial sector. Our goal is to create a detailed, up-to-date and in many areas innovative basis for the future in HR. In 2018, the RATH Group spent a total of k€ 152 on employee training (previous year: k€ 158). Our employees excel by qualifications, commitment, responsibility, discipline, loyalty and mutual appreciation in a familial work environment. At this point, the Executive Board would like to thank all RATH colleagues for their efforts and the constructive cooperation during the past business year.

SUSTAINABILITY (CORPORATE SOCIAL RESPONSIBILITY)

The Supervisory Board and Management of the RATH Group attach high value to sustainable company leadership. Thus, strategic decision-making as well as operational leadership are influenced equally by ecological, economic and social factors.

Active environmental protection is a very important factor and focus area of the RATH Group. Careful handling of resources and waste is the top priority in order to protect the environment as far as possible. Aug. RATH jun. GmbH, for example, is a member of Interseroh in Austria and Germany. The technical progress achieved in the field of environmental protection is continuously examined with regard to its applicability to operating facilities.

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Since 01-JAN-2005, the RATH Group has been subject to the European Emissions Trading Scheme. Under this scheme, the companies involved (currently Aug. RATH jun. GmbH, Austria) receive emissions allowance certificates that must be returned to the relevant public authority within four months at the end of the calendar year in accordance with that year's actual emissions. If actual yearly emissions exceed those allocated on the certificates, the required number of additional certificates must be purchased. The RATH Group had a sufficient number of free certificates.

The most important cross-group strategies for sustainability include RATH's brand and product development strategies, innovation and production procedures to optimize the economy and ecology during the production process as well as in the product. Recording of the most important basic data of the affiliates was continued in the business year 2018.

Our colleagues are the most important asset for a positive, sustainable development of our company's success. Open, appreciative dealings with colleagues of all sectors beyond function levels are the foundation of our company.

RESEARCH & DEVELOPMENT

The RATH Group is organized by a central Research and Development department with the priority areas Innovation, Development, Process Engineering, and Materials Science. Intensive and sustainable research and development are important components of our strategy as a premium supplier. Topics and projects in the area of research, technology and innovation are of the highest priority and supporting pillars for our company success, and therefore crucial for a sustainable competitive advantage and growth. Many projects were implemented in 2018. Particularly noteworthy is the further product development in the area of catalytic hot gas filter elements, and new production processes in the area of pre-cast blocks.

REPORTING ON KEY FEATURES OF THE INTERNAL CONTROL SYSTEM IN THE ACCOUNTING PROCEDURE

The internal control system (ICS) defines all processes for securing economic efficiency and correctness of the accounting. It reduces the error rate of transactions, protects assets from losses by damages and fraud and guarantees conformity of business procedures regarding the Articles of Association, Group guidelines and current legislation (Compliance).

The control environment of the accounting process is marked by a clear structure and process organization, with people specifically assigned to individual functions (e.g.in Financial Accounting and Controlling). Staff involved in the accounting process fulfill the professional requirements. Mostly standard software is used in accounting.

The RATH Group's guidelines are based on the RATH management handbook, the Compliance guidelines as well as internal regulations and signature rules for the company's executive management and the

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executives of all RATH Group companies. These terms will be revised according to the Compliance terms, if necessary, and verifiably brought to the attention of the respective executive management. The local executive management is responsible for adhering to the guidelines and policies of the respective RATH subsidiary. Internal regulations refer, among other things, to the mandatory compliance with terms of the management handbook and define a list of business cases which require approval by the Group's executive management. The management handbook of the RATH Group comprises, among other things, the information and stipulations necessary for the accounting process as well as the consolidation handbook (reporting policies, accounting and valuation principles) or IT policies.

Quarterly, or every six months, respectively, Group results are consolidated according to the IFRS regulations for reporting to the Supervisory Board and shareholders. The Group's consolidated financial statements are comprehensively inspected by an auditor, who guarantees uniform auditing standards with his international network, in close cooperation with the Supervisory Board and the Audit Committee. A standardized monthly management reporting system comprises all consolidated individual companies of the Rath Group. The Supervisory Board of RATH AG regularly discusses information regarding the internal control system during its meetings. The task of the Audit Committee is to monitor the effectiveness of the control system.

RISK MANAGEMENT

The RATH Group is exposed to a variety of risks and rewards in its global entrepreneurial activities. Constant identification, assessment and control of risks is an essential part of the management, planning and controlling process. Risk management uses the organizational, reporting and management structures available in the Group. These processes are continually evaluated by the central Processing Management team. The contents are about documenting all processes within the company as well as the documented actions in case of deviations in order to learn from mistakes and make constant improvements. This thinking in processes is anchored in ISO 9001. The risk management system ensures that risks are regularly analyzed and assessed. This ensures that they can be detected at an early stage, and countermeasures can be implemented quickly should a risk arise.

ESSENTIAL RISKS

Risks that might have negative affects on the assets, financial and earnings position of the RATH Group are basically unchanged compared to previous time periods and are as follows:

Procurement

The main issue in the field of procurement is avoidance of dependence on individual suppliers, as far as possible. Our Central Purchasing department actively counteracts this and creates requirements for a balanced portfolio of suppliers, taking reasonable purchase volumes and prices into account. In order to obtain better prices from our suppliers, it is often necessary to place bulk orders. However, this brings along the disadvantage of capital commitment. The Central Purchasing department tries to compensate for this.

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Production

The essential value-creation levels of the RATH Group lie within the manufacture of our products. A possible risk of a business interruption with direct impact on the company's result is covered by our business interruption insurance across the entire Group. The Group proactively counteracts this by way of precaution via constant analyses of individual assets and precautionary maintenance. In this area, more and more digital solutions from the "Industry 4.0" environment are being evaluated. Nonetheless, risks arising from product liability cannot be fully excluded. In case of quality flaws, they will be corrected according to our customer's best interests. Costs arising from this are covered by our group-wide product liability insurance.

Reputation damage resulting from this, however, is always a risk for the Group.

Sales

The global product or project sale also harbors risks. Our complete solutions are nowadays going to countries that are not always economically and politically stable. Via our sales managers, information is continuously retrieved from the respective market areas and countries, helping us to recognize possible losses of accounts receivable at an early stage and initiate countermeasures. Outside the European Union and the USA, the RATH Group mostly relies on credit operations in regard to payment conditions. Thus, it is guaranteed that our sales are collateralized by an international bank. For those sales not collateralized with letters of credit, we have set up an internal Receivables Management with credit limits. Receivables Management assesses the resulting credit risk with the help of external information from credit agencies and our experience with the respective customer or the customer's country.

On the basis of the information collected a credit limit is set. The RATH Group has no credit default insurance. The losses of accounts receivable of the RATH Group in the reporting year 2018 amounted to k€ 112 (previous year: 370), equivalent to 0.1 % (previous year: 0.4 %) of sales revenues.

Liquidity

The aim of liquidity management is to ensure that the Group has sufficient liquidity at all times. RATH's external financing leeway is primarily ensured by international banking groups. Within the Group, the principle of internal financing applies. This means that the financing requirements of subsidiaries are covered – as far as possible or economically feasible – by internal loan relationships. The stipulation of credit limits and the amount of refinancing costs at financial institutes are dependent on their evaluation of the future prospects of the RATH Group. Therefore, bank contacts are well maintained to ensure that our bank partners always have a clear and current idea of the economic situation of our Group.

Foreign currencies and interest

For the most part, the RATH Group provides deliveries to its customers in the respective currency of the company. Due to the ongoing valuation of the currency pairs $/€ or HUF/€, positive as well as negative changes can take place in the financial result of the individual companies and hence in the Group as well. The RATH Group currently does not possess any derivative financial instruments.

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TOTAL RISK

The risks of the RATH Group are optimally supervised with the described means and measures; from today's perspective, the continued existence of the company is not at risk.

INFORMATION ACCORDING TO § 243A OF THE UGB (AUSTRIAN COMMERCIAL CODE)

The authorized capital consists of 1,500,000 no-par shares (previous year: 1,500,000 no-par shares), with each no-par shares having an equal share in the capital stock. The Executive Board is not aware of any limits regarding voting rights or transfers of shares. RATH AG does not own any of its own shares. Shares owned by diverse shareholders are held by Austrian and international investors. The share is listed in the "Standard Market Auction" of the Vienna Stock Exchange under ISIN number AT0000767306. No significant investments of RATH Group employees are known. Like all shareholders, employees holding shares are free to exercise their voting rights in General Meetings. There are no provisions not immediately derived from the law regarding the naming and dismissal of Executive Board and Supervisory Board Members, as well as modifications to the company's Articles of Association. The Executive Board is not aware of any significant agreements the company is involved in and that take effect at a change of control in the company following a takeover bid. There are no compensation agreements in place between the company and their Executive Board and Supervisory Board Members or employees in the case of a public takeover bid either.

SHAREHOLDER STRUCTURE
31-DEC-2018

- 66.7 % RATH Holding GmbH
- 18.8 % Rath family members
- 14.5 % Diversified ownership

OUTLOOK

Macroeconomic development

Economic growth is predicted to weaken in 2019. The estimates here assume 2 % according to the WIFO forecast and 1.7 % GDP growth according to IHS. The IHS assumes that after Austria's significant growth lead in the year under review, the pace of growth of the Austrian economy and the eurozone will converge in the farther forecast period. Due to external risks such as increasing protectionism and the imminent Brexit, the slowdown in growth will continue until 2020. The economy in Europe is losing vitality over the forecast period, with developments in the three largest economies, Germany, Italy and France, weakening in particular. The WIFO forecast is based on the assumption of a "deal Brexit". As a result of the general economic slowdown, exports in Austria are likewise expected to decline in 2019. Growth on foreign markets is slowing down. Overall, however, the foreign trade risks have increased, see customs duties, trade disputes, etc.

Based on our current open order balance of k€ 34,180 as per 28-FEB-2019 (previous year: k€ 33,000), a good business year 2019 is to be expected for the RATH Group.

We continue to be able to convince our customers with a competitive and attractive service and product mix. In 2019, in addition to our existing product portfolio of filter elements, we also intend to integrate the catalytic filter elements family and establish it on the market. In the area of hot gas filtration, we have succeeded in moving up into the top 3 of suppliers in Europe within less than 4 years.

CONSOLIDATED MANAGEMENT REPORT 2018

We also expect further customer growth in the glass industry, supported by our intensive activities in production as well as in sales. In recent years, we have invested more than M€ 1.5 into equipment and systems for the manufacture of refractory pre-cast concrete blocks for the glass industry and can now offer a very broad product portfolio.

In sales, we have taken on additional sales representatives with an intensive international orientation, and we have also become stronger in engineering.

A key goal for us is further growth. Since Q4-2017, we have been intensively searching for potential targets in order to take a further step into a sustainably successful future through inorganic growth. The target focus is on companies that offer high-quality refractory products for our business lines Glass, Metals and Fuels Chemicals & Energy.

As in recent years, a strong internal focus on quality, innovation and costs continues to apply.
On this basis and taking into account constant foreign exchange rates and interest rates as well as deliverable raw materials, RATH's management expects turnover for the business year 2019 to remain unchanged compared to the historically strongest sales year 2018. The aim is to achieve a stable Group result at a high level. However, uncertainties and risks with regard to global and regional crises remain and can exert a strong influence on the business year at any time.

There were no reportable events after the reporting date.

VIENNA, 24-APR-2019

The Executive Board

Andreas Pfneiszl

DI Jörg Sitzenfrey

ANNUAL FINANCIAL STATEMENTS
RATH GROUP 2018

CONSOLIDATED BALANCE SHEET

	ANNEX NOTE	31-DEC-2018 K€	31-DEC-2017 K€
Cash and cash equivalents	(7)	25,468	19,569
Receivables from goods and services	(5)	15,814	15,876
Other receivables, accruals and deferrals	(6)	2,860	1,600
Inventories	(4)	21,409	20,843
Receivables from income tax		16	0
Current assets		**65,567**	**57,887**
Financial assets	(3)	706	730
Intangible assets	(2)	649	395
Tangible assets	(1)	38,449	37,304
Deferred tax	(12)	1,385	2,032
Long-term assets		**41,189**	**40,462**
TOTAL ASSETS		**106,756**	**98,349**
Current financial liabilities	(10)	2,873	416
Liabilities from goods and services	(13)	7,682	5,970
Contract liabilities	(5)	1,240	0
Other current liabilities	(14)	4,591	3,450
Current accruals and provisions	(11)	820	770
Current income tax debts	(12)	641	240
Current liabilities		**17,848**	**10,846**
Non-current financial liabilities	(10)	37,000	39,038
Liabilities from leasing obligations	(10)	97	996
Staff provisions	(9)	3,183	3,192
Other non-current liabilities and deferrals	(14)	176	176
Deferred tax liabilities	(12)	101	113
Non-current liabilities		**40,557**	**43,514**
Authorized capital		10,905	10,905
Capital reserves		1,118	1,118
Net earnings and available reserves		39,201	34,524
Reserve from currency conversion		-1,848	-1,744
Other reserves		-1,028	-816
Non-controlling interests		2	2
TOTAL EQUITY	(8)	**48,351**	**43,989**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**106,756**	**98,349**

CONSOLIDATED INCOME AND LOSS STATEMENT

	ANNEX NOTE	2018 K€	2017 K€
Sales revenue	(16)	94,488	86,338
Other operating income	(19)	544	746
		95,032	**87,084**
Cost of materials and purchased services	(17)	-43,262	-39,336
Staff costs, including social security benefits and taxes	(18)	-27,819	-26,091
Impairing loss from receivables from goods and services as well as contractual assets	(22)	-112	
Other operating expenses*	(20)	-11,110	-11,262
EBITDA		**12,729**	**10,395**
Depreciation on intangible assets	(2)	-80	-97
Depreciation on tangible assets	(1)	-4,227	-4,061
EBIT		**8,422**	**6,237**
Interest income		23	16
Interest expenses		-802	-913
Other financial income		1,192	468
Other financial expenses		-666	-2,917
Financial result	**(21)**	**-253**	**-3,347**
Earnings before tax (EBT)		**8,170**	**2,891**
Taxes on income	(12)	-2,306	-520
Consolidated result		**5,864**	**2,371**
Attributable to stockholders of the parent company		5,863	2,370
Shares of non-controlling shareholders		1	1
Consolidated result		**5,864**	**2,371**
Basic undiluted result per share (in €)	(5.6)	3.91	1.58
Diluted result per share (in €)	(5.6)	3.91	1.58

* Figures for the business year 2017 adjusted

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2018 K€	2017 K€
Consolidated result after income tax	5,864	2,371
Other results		
Items that will not be reclassified in the P&L account afterwards:		
Revaluation of long-term liabilities towards employees according to IAS 19	-255	-255
Tax thereon	64	64
	-192	**-191**
Items that will be reclassified into the P&L account afterwards:		
Financial assets available for sale Net change of the fair value	0	-5
Tax thereon	0	1
Currency conversion differences	-104	-152
	-104	**-156**
Total of other comprehensive income	**-296**	**-347**
attributable to stockholders of the parent company	-296	-347
attributable to non-controlling interest	0	0
Total consolidated earnings after tax	**5,569**	**2,024**
attributable to stockholders of the parent company	5,568	2,023
attributable to non-controlling interest	1	1
Total consolidated earnings	**5,569**	**2,024**
Basic undiluted result per share (in €)	**3.91**	**1.58**
Diluted result per share (in €)	**3.91**	**1.58**

CHANGES IN CONSOLIDATED EQUITY

	AUTHORIZED CAPITAL K€	CAPITAL RESERVES K€	DIFFERENCES CURRENCY CONVERSION K€	OTHER RESERVES K€	NET EARNINGS AND AVAILABLE RESERVES K€	TOTAL EQUITY SHAREHOLDERS K€	SHARES OF NON-CONTROLLING SHAREHOLDERS K€	TOTAL EQUITY K€
As per 01-JAN-2017	**10,905**	**1,118**	**-1,591**	**-621**	**33,278**	**43,089**	**1**	**43,091**
Consolidated result 2017	0	0	0	0	2,371	2,371	0	2,371
Other comprehensive income 2017	0	0	-152	-195	0	-347	0	-347
Total consolidated earnings	**0**	**0**	**-152**	**-195**	**2,371**	**2,023**	**1**	**2,024**
Disposal	0	0	0	0	0	0	0	0
Disbursement	0	0	0	0	-1,125	-1,125	0	-1,125
As per 31-DEC-2017	**10,905**	**1,118**	**-1,744**	**-816**	**34,524**	**43,987**	**2**	**43,989**
Changeover to IFRS 9	0	0	0	-21	-61	-83	0	-83
As per 01-JAN-2018	**10,905**	**1,118**	**-1,744**	**-837**	**34,463**	**43,905**	**2**	**43,906**
Consolidated result 2018	0	0	0	0	5,864	5,864	0	5,864
Other comprehensive income 2018	0	0	-104	-192	0	-296	0	-296
Total consolidated earnings	**0**	**0**	**-104**	**-192**	**5,864**	**5,568**	**1**	**5,569**
Disposal	0	0	0	0	0	0	0	0
Disbursement	0	0	0	0	-1,125	-1,125	0	-1,125
As per 31-DEC-2018	**10,905**	**1,118**	**-1,848**	**-1,028**	**39,202**	**48,348**	**2**	**48,350**

CONSOLIDATED CASH FLOW STATEMENT

	ANNEX NOTE	2018 K€	2017 K€
Consolidated results after tax		**5,864**	**2,371**
Adjustments to consolidated results			
Depreciation and amortization	(1) (2)	4,306	4,157
Appreciations/Depreciations on financial assets		24	0
Change to personnel reserves		-264	-218
Change to value adjustments		-95	458
Change to deferred taxes		705	-402
Exchange rate differences		-611	2,455
Interest expenses	(21)	802	913
Interest income	(21)	-23	-16
Income taxes	(12)	1,582	921
Valuation of miscellaneous liabilities		0	-311
Income/loss from the disposal of assets		2	5
Other adjustments due to IFRS 9		-82	0
		12,209	**10,333**
Changes in net working capital			
Receivables from goods and services		361	793
Other receivables		-1,258	611
Inventories		-552	-201
Liabilities from goods and services		1,743	-671
Contract liabilities		524	0
Accruals and provisions		50	25
Other liabilities		1,878	1,046
		2,746	**1,604**
Interest paid		-802	-933
Interest received		23	16
Income tax paid		-1,198	-873
Net cash inflow and outflow from operational activity		**12,979**	**10,148**
Deposits from the sale of tangible and intangible assets	(1) (2)	15	0
Payments for investments in tangible and intangible assets	(1) (2)	-5,494	-5,788
Cash flows from the investment activity		**-5,479**	**-5,788**
Proceeds from financial liabilities		152	35,000
Repayments of financial liabilities		-189	-21,916
Repayment of current financial liabilities		-114	0
Payouts for financing of leasing liabilities		-340	-205
Dividend payout		-1,125	-1,125
Cash flows from the financial activity		**-1,617**	**11,754**
Cash and cash equivalents at the beginning of the year		**19,569**	**3,527**
Net change of cash and cash equivalents		**5,883**	**16,114**
Non-cash currency differences		**17**	**-72**
Cash and cash equivalents at the end of the year		**25,468**	**19,569**

NOTES ON THE CONSOLIDATED CASH FLOW STATEMENT

The reconciliation of changes to cash flows from the financial activities in the current business year is as follows:

	INVESTMENT LOANS K€	OVERDRAFTS K€	EXPORT LOANS K€	LIABILITIES FROM FINANCIAL LEASING K€	TOTAL K€
As per 01-JAN-2018	**35,190**	**4,000**	**0**	**1,260**	**40,449**
Change from cash flows from the financial activity					
Payment received from financial debts	152	0	0	0	152
Repayments of financial liabilities	-303	0	0	0	-303
Payouts for financing of leasing liabilities	0	0	0	-340	-340
Currency conversion	0	0	0	12	12
As per 31-DEC-2018	**35,038**	**4,000**	**0**	**932**	**39,969**

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

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY

RATH Aktiengesellschaft (hereinafter referred to as RATH AG), Walfischgasse 14, A-1010 Vienna, and its subsidiaries (hereafter referred to as the "RATH Group") manufacture and distribute refractory materials for industrial consumers and other business operations. The main sales markets are located within the European Union, Eastern Europe, and the USA. The registered office of the parent company is in Vienna. Production facilities are located in Austria, Germany, Hungary and the USA. In addition, there are sales companies in Austria, the Czech Republic, Poland, the Ukraine, and Mexico.

The shares of RATH AG are listed on the Vienna stock exchange in the "Standard Market Auction" segment.

2. ACCOUNTING AND VALUATION PRINCIPLES AND METHODS

2.1. ACCOUNTING STANDARDS

The consolidated financial statements of the RATH Group as per 31-DEC-2018 were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union, and the additional regulations of § 245a I of the UGB (Austrian Commercial Code).

The accounting practices for the companies included in the consolidated financial statements are based on the uniform accounting methods of the RATH Group. The consolidated financial statements are compiled in units of € 1,000 ("k€", rounded up or off by the commercial rounding method). The summation of rounded figures and percentages may give rise to calculation differences due to the use of automatic calculation systems. These consolidated financial statements were approved for publication by the Executive Board on 15-APR-2019. The annual financial statements of RATH AG were submitted to the Supervisory Board for examination on 24-APR-2019.

These are the first consolidated financial statements to apply IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. Changes in significant accounting methods are described in Annex Note 2.2.

2.2. CHANGES IN SIGNIFICANT ACCOUNTING METHODS

As per 01-JAN-2018, the Group applied IFRS 15 and IFRS 9 for the first time. As per 01-JAN-2018, a number of other new standards have come into force; however, these have no substantial effect on the consolidated financial statements.

Due to the transition methods chosen by the Group for the application of these standards, the comparative information in these financial statements has not been adapted to the requirements of the new standards. The first-time application of these standards did not result in any material changes for the RATH Group.

2.3. IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 establishes a comprehensive framework for determining whether, to what extent and when sales revenue is recognized. It replaces existing sales revenue recognition guidelines, including IAS 18 Revenue, IAS 11 Construction Contracts, and IFRIC 13 Customer Loyalty Programs. Under IFRS 15, revenue is recognized whenever a customer obtains power of disposal over goods or services. The determination of whether the transfer of the power of disposal is date-based or period-based requires discretionary decisions.

When transitioning to IFRS 15, the Group applied the modified retrospective method (without simplification rules), according to which the cumulative adjustment amounts as per 01-JAN-2018 were calculated using the retrospective method. As a result, the comparative information for 2017 has not been adapted, i.e. it has been presented as before in accordance with IAS 18, IAS 11 and the corresponding interpretations. In addition, the disclosure requirements under IFRS 15 were generally not applied to comparative information. The transition to IFRS 15 did not have any material impact on retained earnings as per 01-JAN-2018, the consolidated balance sheet, the consolidated statement of comprehensive income and the consolidated cash flow statement for the business year 2018.

The RATH Group engages in the sale of refractory products and solutions. These include high-temperature wool, rolls, mats, combination modules, lightweight insulating bricks and dense bricks and concretes, as well as vacuum-formed products and filter elements. In terms of the product portfolio, a distinction must be made between exclusive orders for goods and deliveries of materials including services.

a) Orders for goods

The orders for goods relate to sales of standard products. In accordance with IAS 18, sales revenue was recognized for these contracts whenever the significant risks and rewards of beneficial ownership were transferred to the customer. As standardized products rather than customer-specific products are being sold, these are date-based performance obligations in accordance with IFRS 15. Revenue is thus recognized when the customer obtains control of the asset and the Group has settled the performance obligation.

b) Deliveries of materials including services

The RATH Group also enters into customer contracts that comprise not only products manufactured or purchased by the RATH Group, but also service in the form of assembly.

In accordance with IAS 11, sales revenue from the contract manufacture of e.g. special furnaces was recognized upon delivery of the goods to the customer's premises. This was regarded as the point in time at which the customer accepted the goods and the associated risks and rewards of ownership. Sales revenue was recognized at that time, provided that the sales revenue and costs could be assessed reliably, it was probable that the consideration would be received, and there was no continuing right of disposal over the goods.

According to IFRS 15, such contracts comprise two separate performance obligations, namely delivery of materials and assembly. The goods to be delivered are standardized products which are adapted to customer requirements only in the course of the installation work. Sales revenue is recognized at the time when beneficial ownership and the associated risks and rewards are transferred in accordance with the agreed delivery terms (generally at the time of delivery to the construction site). Therefore the performance obligation is date-based. Assembly is a customer-specific performance. For this reason, this is a period-based performance obligation. As per the reporting date 31-DEC-2018, no substantial assembly services had been incurred for which period-based revenue recognition and deferral as a contractual asset would have been required. The item "Contract liability" was included in the balance sheet, which contains advance payments received for orders placed by customers.

2.4. IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 defines the requirements for the valuation and recognition of financial assets, financial liabilities and some contracts for the purchase or sale of non-financial contracts. This Standard supersedes IAS 39 Financial Instruments: Valuation and recognition.

As a result of the introduction of IFRS 9, the Group has implemented consequential amendments to IAS 1 Presentation of Financial Statements, which require an impairment loss on financial assets to be presented in a separate item in the comprehensive P&L account. Previously, the Group had recognized impairment losses on receivables from goods and services as other expenses. For reasons of materiality, impairments of other financial assets are not reported separately in the comprehensive P&L account, but in the financial result, similar to the previous presentation.

In addition, the Group has applied consequential amendments to IFRS 7 Financial Instruments: Disclosures to the Annex Notes for the 2018 financial year. However, these were generally not applied to the comparative information as well.

The following table presents the effects of the transition to IFRS 9 on the opening balance of other reserves, retained earnings and non-controlling interests after tax (see below for a description of the transition method).

	EFFECTS OF THE APPLICATION OF IFRS 9 TO THE OPENING BALANCE SHEET VALUES OF K€
Valuation of the expected credit losses in accordance with IFRS 9	101
Related taxes	-18
Effect as per 01-JAN-2018	82

2.4.1. CLASSIFICATION AND ASSESSMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

IFRS 9 comprises three basic categories for classifying financial assets: assessed at amortized cost; assessed at fair value with changes in further comprehensive income (FVOCI); or assessed at fair value through profit or loss (FVTPL). The classification of financial assets in accordance with IFRS 9 is based on the organization's business model for managing financial assets and the characteristics of the contractual cash flows. IFRS 9 eliminates the previous categories of IAS 39: Financial assets assessed at fair value in the P&L account, financial assets, loans and receivables available for sale, and held-to-maturity investments. Under IFRS 9, derivatives embedded in contracts where the underlying financial asset is within the scope of the standard are never accounted for separately. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities.

The first-time application of IFRS 9 had no substantial impact on the Group's accounting policies with respect to financial liabilities and derivative financial instruments. See Annex Note 2.8 for an explanation of how the Group classifies and assesses financial instruments and related gains and losses in accordance with IFRS 9.

The following table and the accompanying information explain the original measurement category in accordance with IAS 39 and the new measurement category in accordance with IFRS 9 as per 01-JAN-2018 for each class of financial assets and financial liabilities established by the Group.

The effects of the first-time application of IFRS 9 to the book values of financial assets as per 01-JAN-2018 result exclusively from the new regulations on the recognition of impairment losses.

The following tables reconcile the book values of financial assets under IAS 39 to the book values under IFRS 9 at the date of transition to IFRS 9 on 01-JAN-2018.

	IAS 39 BOOK VALUE AS PER 31-DEC-2017 KE	RECLASSIFICATION KE	REVALUATION KE	IFRS 9 BOOK VALUE AS PER 01-JAN-2018 KE
Amortized cost				
Cash and cash equivalents				
Balance Forward:	19,569	-19,569		
Reclassified as:				
Amortized cost		19,569		19,569
Trade receivables				
Balance Forward:	15,876	-15,876		
Reclassified as:				
Amortized cost		15,876		
Revaluation			-101	15,775
Total amortized cost				**35,344**

	IAS 39 BOOK VALUE AS PER 31-DEC-2017 KE	RECLASSIFICATION KE	REVALUATION KE	IFRS 9 BOOK VALUE AS PER 01-JAN-2018 KE
Available for sale				
Balance Forward:	730	-730		
Reclassified as:				
FVTPL – Debt instruments		730		730
Total FVTPL – Debt instruments				**730**

The available-for-sale financial instruments classified in accordance with IAS 39 with a book value of k€ 730 as per 31-DEC-2017 are securities held for the purpose of covering the accrual for severance payments in the form of investment fund shares. As they do not meet the SPPI criterion, they were classified at FVTPL in accordance with IFRS 9 as per 01-JAN-2018.

Classification and rating of financial assets and financial liabilities:

	ORIGINAL VALUATION CATEGORY ACCORDING TO IAS 39	ORIGINAL VALUATION CATEGORY ACCORDING TO IFRS 9	01.01.2018 ORIGINAL BOOK VALUE ACCORDING TO IAS 39 K€	 NEW BOOK VALUE ACCORDING TO IFRS 9 K€
Financial assets				
Cash and cash equivalents	Loans and receivables	at amortized costs	19,569	19,569
Receivables from goods and services	Loans and receivables	at amortized costs	15,876	15,775
Other financial receivables	Loans and receivables	at amortized costs	179	179
Long-term financial assets	Available for sale	Mandatory for FVTPL	730	730
Financial liabilities				
Liabilities from goods and services	Other financial liabilities	at amortized costs	5,970	5,970
Other financial liabilities	Other financial liabilities	at amortized costs	1,050	1,050
Other financial liabilities	At fair value in the P&L account	Mandatory for FVTPL	105	105
Current bank liabilities	Other financial liabilities	at amortized costs	152	152
Long-term bank liabilities	Other financial liabilities	at amortized costs	39,038	39,038
Leasing liabilities	Other financial liabilities	at amortized costs	1,260	1,260

a) Trade receivables classified as loans and receivables in accordance with IAS 39 are now classified at amortized cost. An increase by k€ 101 in the value adjustments of these receivables was recognized as per 01-JAN-2018 with the transition to IFRS 9 in the retained earnings.

b) The Group also holds investment fund shares in its portfolio which serve to cover provisions for severance payment accruals. In accordance with IAS 39, these debt instruments represent available-for-sale financial instruments whose fair value changes were as a matter of principle recognized in the OCI. In the event of disposal or a significant drop in value, recycling or recognition in the P&L account was also carried out. In accordance with IFRS 9, the RATH Group classifies the investment fund shares at FVTPL and consequently assesses the shares at fair value in the P&L account in the future. In the course of the conversion, the amount of k€ 21 included in the OCI for available-for-sale financial instruments was transferred to the opening balance sheet of shareholders equity.

c) In the context of derivative financial instruments, the RATH Group held an interest rate swap until June 2018 that served economically to hedge a variable-rate liability, but for which hedge accounting in accordance with IAS 39 was not applied. For this reason, there were no adjustments resulting from the first-time application of IFRS 9 as per 01-JAN-2018.

2.4.2. IMPAIRMENT OF FINANCIAL ASSETS

IFRS 9 replaces the "incurred losses" model of IAS 39 with an "expected credit loss" ("ECL") model. The new impairment model is to be applied to contractual assets rated at amortized cost, contract assets and debt instruments measured at FVOCI, but not to equity investments held as financial assets. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

For assets within the scope of the impairment model of IFRS 9, the impairments are likely to increase and become more volatile. The Group has determined that the additional impairment losses resulting from the application of the impairment provisions of IFRS 9 as per 01-JAN-2018 are as follows:

	EFFECTS OF THE APPLICATION OF IFRS 9 TO THE OPENING BALANCE SHEET VALUES OF *K€*
Value adjustment as per 31-DEC-2017 in accordance with IAS 39	1,039
Additional impairing loss as per 01-JAN-2018 on:	
Receivables from goods and services and other receivables as per 31-DEC-2017	101
Value adjustment as per 01-JAN-2018 according to IFRS 9	1,140

2.4.3. TRANSITION

The changes in accounting methods resulting from application of IFRS 9 have been applied retrospectively except in the following cases:

› The Group has made use of the exemption not to adapt comparative information for prior periods in respect of changes in classification and rating (including any impairment). Differences between the book values of financial assets and financial liabilities due to the application of IFRS 9 are as a matter of principle recognized in retained earnings and other reserves as per 01-JAN-2018. Insofar, the information presented for 2017 generally meets the requirements not of IFRS 9 but of IAS 39.

The following assessments were made on the basis of the facts and circumstances existing at the time of first application:

› Determination of the business model in whose context a financial asset is held

› Identification and revocation of older provisions relating to certain financial assets and financial liabilities that are assessed at FVTPL.

› If an investment in a debenture had a low credit risk when IFRS 9 was first applied, the Group has assumed that the default risk of the asset has not increased significantly since its initial recognition.

2.5. CHANGES AND EXTENSIONS OF THE IFRS

New and amended standards applied by the company for the first time

The RATH Group has reviewed the impacts of the following newly applied standards and has come to the conclusion that they have no or no significant impacts on the consolidated financial statements as per 31-DEC-2018.

	STANDARD/INTERPRETATION/ CHANGE	TIME OF APPLICATION	IMPACTS IN THE REPORTING YEAR
IAS 40	Transfers of Investment Property (Amendments to IAS 40)	01-JAN-2018	No effects
IFRS 1 **IAS 28**	Annual Improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28)	01-JAN-2018	No effects
IFRIC 22	Foreign Currency Transactions and Advance Consideration	01-JAN-2018	No effects

New standards, amendments and interpretations that have already been adopted and such that have not yet been adopted by the European Union and not applied in advance of their adoption date

The following amendments or revisions of standards and interpretations have not yet been fully adopted by the EU as per the balance sheet date and are not yet mandatory for the business year and have not been applied prematurely either.

Standards to be applied in the future and already adopted by the European Union:

	STANDARD/INTERPRETATION/ CHANGE	TIME OF APPLICATION	IMPACTS IN THE REPORTING YEAR
IFRS 16	Leases	01-JAN-2019	See Note 2.5
IFRIC 23	Uncertainty over Income Tax Treatments	01-JAN-2019	No significant effects
IFRS 9	Prepayment Features with Negative Compensation	01-JAN-2019	No effects

Standards not yet adopted by the European Union as per the reporting date:

	STANDARD/INTERPRETATION/ CHANGE	TIME OF APPLICATION	IMPACTS IN THE REPORTING YEAR
IAS 19	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	01-JAN-2019	none
	Annual Improvements to IFRS Standards 2015-2017 Cycle various standards	01-JAN-2019	none
CF	Amendments to References to Conceptual Framework in IFRS Standards	01-JAN-2020	none
IFRS 3	Definition of a Business (Amendments to IFRS 3)	01-JAN-2020	none
IAS 1 **IAS 8**	Definition of Material (Amendments to IAS 1 and IAS 8)	01-JAN-2020	none
IFRS 17	Insurance Contracts	01-JAN-2021	none

Premature application of the above standards is currently not planned. IFRS 16 was adopted by the RATH Group with effect from 01-JAN-2019.

IFRS 16 Leases

The Group is required to apply IFRS 16 Leases as per 01-JAN-2019. The Group has assessed the estimated impact of the first-time adoption of IFRS 16 on its consolidated financial statements, as presented below. The actual effects of the application of this standard as per 01-JAN-2019 may differ because the Group has not yet completed testing and assessment of its controls, and new accounting methods may be subject to change until the first interim consolidated financial statements are published after the date of adoption.

IFRS 16 introduces a uniform accounting model under which leases are recognized in the lessee's balance sheet. A lessee recognizes a right of use asset, which represents its right to use the underlying asset, and a liability from the lease, which represents its obligation to make lease payments. There are simplification rules for current leases and low-value leases. Lessor accounting is comparable to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces the existing rules on leases, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of Leases.

2.5.1. LEASES IN WHICH THE GROUP IS THE LESSEE

The Group will recognize new assets and liabilities for its operating leases for production facilities, leased buildings and vehicles. The nature of the expenses associated with these leases will change as the Group now recognizes depreciations for rights of use and interest expense on lease liabilities.

Previously, the Group used to recognize expenses from operating leases using a straight-line method over the lease term and recognized assets and liabilities only to the extent that there was a time difference between the actual lease payments and the recognized expenses.

No substantial effects on the Group's finance leases are expected.

Based on currently available information, the Group estimates that it will have additional lease liabilities to the amount of k€ 1460 as per 01-JAN-2019. The Group does not expect the adoption of IFRS 16 to have an impact on its ability to borrow.

2.5.2. LEASES IN WHICH THE GROUP IS THE LESSOR

The new standard has no material effect on the RATH Group in the case of lessor agreements.

2.5.3. TRANSITION

The Group intends to apply IFRS 16 for the first time as per 01-JAN-2019, using the modified retrospective method. A significant effect on equity as per 01-JAN-2019 is not expected.

The Group intends to make use of the simplification rule regarding the retention of the definition of a lease during the conversion. This means that the Group will apply IFRS 16 to all contracts entered into before 01-JAN-2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

2.6. BASIS OF CONSOLIDATION AND CONSOLIDATION METHODS

The parent company is RATH AG, Vienna. The consolidated financial statements of the Group include all companies governed by the parent company through full consolidation. An investor is in control of an associated company if he or she has power of disposition over the associated company, if he or she is exposed to risks by or rights to fluctuating returns from his or her commitment in the associated company, and if he or she uses his or her power of disposition over the associated company in such a way that the amount of returns of the associated company is influenced. The financial statements of a subsidiary are included into the consolidated financial statements from the date that control commences until the date that control ceases.

The first-time inclusion of a subsidiary takes place using the purchase accounting method by allocating acquisition costs to the identifiable assets and liabilities of the purchased company. The amount of acquisition costs over and above the fair value of net assets is recorded as goodwill. Should the fair value of the net assets be higher than the acquisition costs, after further critical assessment of the applicability and evaluation of the assets and liabilities taken over RATH AG will report the excess amount as affecting net income in the P&L account. Acquisition-related costs are expressed in the P&L account when incurred. For each company acquisition, the RATH Group decides on an individual basis whether the non-controlling interest in the acquired company is reported at fair value or on the basis of the proportional share of the net assets of the acquired company.

There were no company acquisitions in the business years 2018 and 2017. Group-internal transactions, receivables, liabilities and significant unrecognized profits and/or losses (interim results) are eliminated.

Transactions with non-controlling interests are treated as transactions with equity owners of the Group. Any difference arising from the acquisition of a non-controlling interest between the consideration paid and the respective share in the book value of the subsidiary's net assets is recognized in equity. Gains or losses arising from disposals of non-controlling shares are also reported in equity.

In addition to RATH AG, the basis of consolidation comprises the following companies:

	GROUP SHARE IN %		CONSOLIDATION METHOD
	2018	2017	
Chamottewaren- und Thonöfenfabrik Aug. RATH jun. GmbH	99.98 %	99.98 %	Full consolidation
RATH GmbH, Germany	100 %	100 %	Full consolidation
RATH Hungaria Kft., Hungary	100 %	100 %	Full consolidation
RATH Inc. Newark, USA	100 %	100 %	Full consolidation
RATH Zarotechnika spol. s r.o., Czech Republic	100 %	100 %	Full consolidation
RATH Polska Sp. z o.o., Poland	100 %	100 %	Full consolidation
RATH Ukraine TOW, Ukraine	100 %	100 %	Full consolidation
RATH Group srl., Mexico	100 %	100 %	Full consolidation
RATH Filtration GmbH, Austria	100 %	100 %	Full consolidation

2.7. CURRENCY CONVERSION

Business transactions in foreign currency

The functional currencies of the financial statements of the individual affiliates conform to the local currencies.

Individual affiliates record business transactions in a foreign currency using the average exchange rate on the relevant transaction date. Monetary assets and liabilities denominated in a foreign currency as per the reporting date are translated into the functional currency at the closing rate. Non-monetary assets and liabilities assessed at fair value in a foreign currency are translated at the exchange rate applicable at the date when the fair value is determined. Non-monetary items assessed at historical acquisition or production cost in a foreign currency are translated at the exchange rate at the date of the transaction. Currency translation differences are as a matter of principle recognized in profit or loss for the period and reported under financial expenses.

Conversion of annual financial statements in foreign currency

The consolidated financial statements are based on €, the reporting currency of RATH AG. The functional currency of subsidiaries outside the eurozone is the respective local currency. The conversion into € of all assets in these companies' annual financial statements, including goodwill and debt, takes place using the average exchange rate as per the balance sheet date. The items of the P&L account are converted and posted at the monthly average exchange rate over the business year in question. All resulting differences in conversion rates are recognized as separate items in the comprehensive P&L account ("differences in currency conversion") as part of the further comprehensive income.

The following exchange rates are particularly significant for the consolidated financial statements:

	RATE AS PER REPORTING DATE 31-DEC-2018	RATE AS PER REPORTING DATE 31-DEC-2017	AVERAGE RATE 1-12 2018	AVERAGE RATE 1-12 2017
$	1.145	1.199	1.181	1.130
HUF	320.980	310.330	318.890	309.193
CZK	25.724	25.535	25.647	26.326
PLN	4.301	4.177	4.261	4.257
UAH	31.714	33.495	32.250	30.272

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

2.8. ACCOUNTING AND VALUATION PRINCIPLES

2.8.1. INTANGIBLE ASSETS

Individually acquired intangible assets are assessed under acquisition or production costs upon initial valuation. Acquisition or production costs include all costs incurred to bring the asset up to its current condition. Acquisition costs of an intangible asset acquired during a merger reflect the fair value of the same at the time of acquisition.

Following initial valuation, intangible assets are stated at acquisition or production cost less cumulative depreciations and value reductions. Depreciation occurs using a straight-line method over an estimated utilization period of 3 to 15 years. There are no intangible assets with an indefinite useful life.

Profits and losses from the disposal of intangible assets are determined by comparing the sales proceeds with the book values and are recognized in the item "Other operating income" or "Other operating expenses", respectively, in the P&L account. Development expenses are activated only if the development costs can be assessed reliably, if the product or the procedure is technically and commercially suitable, if a future economic use is likely, and if the Group intends to and has sufficient resources to finish the development and use or sell the asset. Activated development expenses are assessed as acquisition or production costs less cumulative depreciations and cumulated impairments. There were no development costs activated in the business years 2018 and 2017.

2.8.2. TANGIBLE ASSETS

Items of property, plant and equipment are rated at acquisition or production cost less accumulated scheduled depreciations and impairment losses. Acquisition and production costs include all costs incurred to bring the asset up to its current condition and location. The production costs of internally produced assets include the expenses attributable directly to the production. Borrowing costs are stated if they can be attributed to a qualifying asset. During the year under review, there were no borrowed capital costs, because there were no qualified assets.

Costs incurred in subsequent periods for an asset (subsequent acquisition or manufacturing costs) are capitalized only when it is probable that the RATH Group will reap future economic benefit, and the costs can be determined reliably.

Depreciation of the intangible assets and depreciable tangible assets is done using a straight-line method over the expected useful life of such assets. The depreciation is as a matter of principle recognized in profit or loss. Depreciation methods, residual values and economically useful lives are reviewed on every balance sheet date and adjusted if required. The following useful lives were assumed when determining the depreciation rates:

	UTILIZATION PERIOD IN YEARS	
Building	from 10	to 35
Machinery	from 10	to 25
Business equipment	from 3	to 15

Profits and losses from the disposal of tangible assets are determined by comparing the sales proceeds with the book values of the tangible assets and are recognized in the item "Other operating income" or "Other operating expenses" in the P&L account.

2.8.3. ASSETS FROM RENTALS AND LEASES

Leases in which the RATH Group as a lessee has essentially all the risks and rewards of an asset associated with the ownership transferred to it are classified as financing leases. Otherwise, an operating lease exists under which the RATH Group as a matter of principle recognizes the lease installments payable by the lessee as expenses over the term of the lease. Tangible assets that are acquired through financing leasing contracts will be reported at the amount of the fair value or the lower cash value of the minimum leasing payments at the start of the leasing relationship minus depreciations and depreciation expenses.

If substantially all the risks and rewards incidental to ownership are attributable to the RATH Group as lessor, the leased asset is accounted for by the RATH Group. The leasing object will be reported according to the rules applicable to the asset in agreement with IAS 16. The leasing payments will be recognized in the P&L account throughout the duration of the leasing contract. Leases where the RATH Group transfers all of the risks and rewards of an asset connected with ownership as a lessor are to be classified as financing leases. Receivables from leasing are reported at the amount of the net investment value from the leasing relationship.

Capitalized asset values are balanced by the respective present value of the liability from outstanding lease payments as per the balance sheet date. Each leasing installment is split into an interest and an amortization share. The interest part of the leasing rate is stated in the P&L account as expenses.

2.8.4. GOVERNMENT GRANTS

Government grants for expenses are recognized as other operating income in the respective period, except when the payment of the grant is dependent on conditions that do not occur with sufficient probability yet. Investment grants are recognized on the liability side from the time binding approval is given, and reported in the P&L account in accordance with the depreciation of the assets in question.

2.8.5. FINANCIAL ASSETS

Valuation and initial assessment

Receivables from goods and services and debentures issued are recognized from the date on which they arise. All other financial assets and liabilities are initially recognized on the trading day when the organization becomes a party to the contract under the terms of the instrument.

A financial asset (other than a receivable from goods and services without a significant financing component) or a financial liability is initially assessed at fair value. For an item that is not valued at FVTPL, transaction costs directly attributable to its acquisition or issue are added. Receivables from goods and services without significant financing components are initially assessed at the transaction price.

Financial assets – Classification and subsequent measurement – Procedure from 01-JAN-2018 onwards

Upon initial recognition, a financial asset is classified and assessed as follows:

- at amortized cost
  - – FVOCI debt instruments (investments into debt instruments assessed at fair value with changes in further comprehensive income)
  - – FVOCI equity investments (equity investments assessed at fair value with changes in further comprehensive income)
  - – FVTPL (at fair value through profit or loss)

Financial assets are not reclassified after initial recognition unless the Group changes its business model for managing financial assets. In this case, all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

A financial asset is valued at amortized cost if both of the following conditions are met and it has not been designated at FVTPL:

- It is held within the framework of a business model whose objective is to hold financial assets to collect contractual cash flows; and
- the contractual terms of the financial asset result in cash flows at specified dates that represent only principal and interest payments on the outstanding principal amount.

A debt instrument is designated an FVOCI if both of the following conditions are met and it has not been designated at FVTPL:

- It is held within the framework of a business model whose objective is both to hold financial assets to collect contractual cash flows and to sell financial assets; and
- its terms and conditions result in cash flows at specified times which represent only principal and interest payments on the outstanding principal amount.

Upon initial valuation of an equity investment that is not held for trading, the Group may irrevocably elect to show consequential changes in the fair value of the investment in further comprehensive income. This choice is made on a case-by-case basis for each investment.

All financial assets that are not valued at amortized cost or at FVOCI are assessed FVTPL. This includes all derivative financial assets. Upon initial recognition, the Group may irrevocably decide to designate financial assets that otherwise qualify for valuation at amortized cost or at FVOCI at FVTPL if this results in the elimination or significant reduction of accounting mismatches otherwise occurring.

Financial assets – Assessment of the business model – Procedure from 01-JAN-2018 onwards

The Group makes an assessment of the objectives of the business model in which the financial asset is held at a portfolio level, as this best reflects the way the business is managed and information is provided to management. The information to be considered includes:

- the stated policies and objectives for the portfolio and the implementation of those policies in practice; this includes whether the management strategy is to collect the contractual interest income, maintain a particular interest rate profile, match the maturity of a financial asset with the maturity of a related liability or the expected cash outflows, or realize cash flows by selling the assets
- how the results of the portfolio are evaluated and reported to the Group management
- the risks affecting the results of the business model (and the financial assets held under that business model) and how those risks are being managed
- how the managers are remunerated – for example, whether the remuneration is based on the fair value of the assets under management or on the contractual cash flows received, and
- the frequency, extent and timing of sales of financial assets in prior periods and expectations about future sales activities.

Transfers of financial assets to third parties through transfers that do not result in write-off are, consistently with the Group continuing to account for the assets, not sales for this purpose.

Financial assets that are being held or managed for trading purposes and whose performance is assessed on the basis of fair value are valued at FVTPL.

Financial assets – Assessment of whether the contractual cash flows are exclusively repayments of principal and interest – Procedure from 01-JAN-2018 onwards

For the purpose of this assessment, the "principal amount" is defined as the fair value of the financial asset upon initial valuation. "Interest" is defined as the consideration for the fair value of the money and for the risk of default associated with the principal amount outstanding over a specified period, as well as for other basic credit risks, costs (such as liquidity risk and administrative costs) and a profit margin.

In assessing whether the contractual cash flows are solely interest and principal payments on the principal amount, the Group considers the contractual terms of the instrument. This includes an assessment of whether the financial asset comprises a contractual agreement that could change the timing or amount of the contractual cash flows so that they no longer meet these conditions.

In making this assessment, the Group takes into account the following factors:

› certain events that would change the amount or timing of the cash flows;
› conditions that would adjust the interest rate, including variable interest rates;
› early repayment and renewal options; and
› conditions that restrict the Group's claim to cash flows from a particular asset (for example, no right of recourse).

An early repayment option is consistent with the criterion of exclusive interest and principal repayments if the amount of the early repayment consists essentially of unpaid interest and principal payments on the outstanding principal amount, which may comprise reasonable additional consideration for early termination of the contract.

In addition, a precondition for a financial asset acquired at a premium or discount to the contractual principal amount that permits or requires early repayment at an amount that is substantially the contractual principal amount plus accrued (but unpaid) contractual interest (which may comprise an appropriate consideration for early termination of the contract) is treated as in accordance with the criterion if and insofar as the fair value of the early repayment option is initially not significant.

Financial assets – Subsequent assessment and gains and losses – Procedure from 01-JAN-2018

Financial assets at FVTPL

These assets are subsequently assessed at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

Financial assets at amortized cost

These assets are subsequently valued at amortized cost using the effective interest method. The amortized costs are reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognized in profit or loss. A gain or loss on write-off is recognized in profit or loss.

Debt instruments to FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognized in profit or loss. Other net gains or losses are recognized in further comprehensive income. Upon write-off, the accumulated further comprehensive income is reclassified to profit or loss.

Equity investments into FVOCI

These assets are subsequently rated at fair value. Dividends are recognized as income in profit or loss unless the dividend is clearly covering part of the costs of the investment. Other net gains or losses are recognized in further comprehensive income and never reclassified to profit or loss.

Financial assets – Procedure before 01-JAN-2018

The Group classified its financial assets into one of the following categories:

› Loans and receivables
› Held to maturity
› Available for sale and at fair value in the P&L account, and within this category:
    – held for trading
    – derivative hedging instruments or
    – designated at fair value in the P&L account.

Financial assets – Subsequent valuation and profit and loss – Procedure before 01-JAN-2018

Financial assets measured at fair value in the P&L account

Valued at fair value. Changes, including interest and dividend income, are recognized in profit or loss. For derivatives designated as hedging instruments.

Held-to-maturity financial investments

These assets were rated at amortized cost using the effective interest method.

Loans and receivables

These assets were valued at amortized cost using the effective interest method

Financial assets available for sale

Assessed at fair value. With the exception of impairment losses, interest income and foreign currency translation differences in the case of debentures, corresponding changes in value were recognized in further comprehensive income and reported in the revaluation reserve. When these assets were written off, the accumulated further comprehensive income was reclassified to profit or loss.

Write-off

The Group writes off a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the cash flows in a transaction in which all significant risks and rewards of ownership of the financial asset are transferred.

Write-off takes place also if the Group neither transfers nor retains all material risks and rewards of ownership and does not retain power of disposal over the transferred asset.

The Group carries out transactions in which it transfers assets recognized in the balance sheet but retains all or substantially all the risks and rewards of ownership of the transferred asset. In such cases, the transferred assets are not written off.

The Group writes off a financial liability when the contractual obligations have been fulfilled, canceled or expired. The Group also writes off a financial liability if its contractual terms are changed and the cash flows of the adjusted liability significantly differ. In this case, a new financial liability is recognized at fair value based on the revised terms.

Whenever a financial liability is written off, the difference between the book value of the repaid liability and the consideration paid (including non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

Offsetting

Financial assets and liabilities are offset and presented as net amounts in the balance sheet whenever the Group has a present enforceable legal right to mutually set off the recognized amounts and intends either to settle the liability on a net basis or to settle the respective liability simultaneously with the realization of the asset.

2.8.6. INVENTORIES

Inventories are valued at the lower value of the acquisition and production costs and the net sales value as per the balance sheet date. Inventories are tested for recoverability at regular intervals if the net realizable value on the sales market is lower than the book value of the inventory asset.

Acquisition and production costs include all costs of manufacturing, working and processing, as well as other costs that have been incurred to bring the inventory in its current location and condition. Production costs include all direct costs and variable costs and overheads that are systematically incurred during production on the basis of the average utilization of the production facilities. Unit costs are calculated using the moving average price method.

The net realizable value is the estimated selling price in the ordinary course of business minus applicable variable cost of sales and production.

2.8.7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include ready money and readily available assets at credit institutes with a remaining time to maturity of up to three months. The item "Cash and cash equivalents" corresponds to the cash fund of the cash flow statement.

2.8.8. DEPRECIATION

In case of long-term assets, except for deferred tax assets and financial assets, a review of whether or not there are indications of a reduction in value is carried out on the respective balance sheet date or in case of a triggering event.

In case of indications, the RATH Group calculates the recoverable amount for the asset. This corresponds to the higher of use value and fair value minus selling costs. Should the recoverable amount be less than the book value of the asset, an impairing loss for this difference is to be recorded in the P&L account.

The use value of the asset is equivalent to the present value of anticipated future cash flows from its continued use and end-of-life disposal, using a pre-tax, standard market interest rate that is appropriate for the specific risks of the asset. If no cash flow that is independent of other assets can be determined for an individual asset, the use value is calculated using the next largest unit to which this asset belongs and cash flows are generated that are largely independent of the inflows from other assets (cash-generating unit). The RATH Group defines the individual companies as "cash-generating units".

The fair value less selling costs is equivalent to the proceeds achievable in the market from independent third parties, less any costs of sale incurred.

Any subsequent non-impairment leads to an appreciation in value in the P&L account up to the lower value of the amortized cost of acquisition or production and the recoverable amount.

As per the balance sheet date, there was nothing to suggest impairing loss or appreciation in value.

2.8.9. EMPLOYEE BENEFITS

› Employee benefits due in the short term
  Obligations arising from employee benefits due in the short term are recognized as expenses as soon as the related labor is performed. A liability is recognized for the amount expected to be payable if the Group currently has a legal or actual obligation to pay that amount as a result of employee service, and the obligation can be estimated reliably.
› Contribution-based schemes
  Obligations for contributions to contribution-based schemes are recognized as expenses when the related service is rendered. Prepaid

contributions are recognized as assets if and insofar as a right to reimbursement or a reduction in future payments arises. In the case of contribution-based pension plans, the company makes payments to private or public pension systems and employee and employee benefit funds due to statutory or contractual obligations. There are no other obligations beyond the payment of contributions.

› Performance-oriented schemes
  All other obligations result from unfunded, performance-oriented benefit plans and are provided for accordingly. The Group's net obligation with regard to performance-oriented benefit plans is calculated separately for each plan by estimating the future benefits that the employees have earned in the current and prior periods. This amount is discounted, and the fair value of any scheme assets is deducted.

This obligation is reported in accordance with IAS 19. This is done by determining the value of the defined benefit obligation (DBO). The DBO is calculated using the projected unit credit (PUC) method. According to this method, future payments are calculated using realistic assumptions over that period during which the respectively entitled persons acquire these entitlements. The calculation of the required provision is done for the respective balance sheet date by an actuary's expert opinion.

Future obligations will be assessed according to actuarial principles and are based on a proper assumption of the discount factor, salary increase factor and the pension increase factor. Assumption-based revaluations of the net liability from defined benefit schemes are recognized directly in equity in the year in which they arise via further comprehensive income (see "Consolidated statement of comprehensive income"). Thus, the accrual usually corresponds to the actual obligation on the respective balance sheet date.

Any past service costs are immediately recognized in the P&L account. Regarding the anniversary bonus provisions, actuarial profits and losses are immediately recorded in the P&L account. For severance payment accrual and provisions for pensions, the results from the revaluation of the net liability are recognized in the further comprehensive income. With respect to severance payment accruals, the service costs are distributed over the time frame in which the maximum entitlement to compensation is reached.

2.8.10. ACCRUALS AND PROVISIONS

Accruals and provisions are reported if the RATH Group has a legal or factual obligation to a third party as a result of a past event, whereby it is likely that this obligation will lead to a reduction of resources and a reliable estimate of the amount of the obligation can be made. If dismantling work needs to be carried out on a tangible asset at the end of its useful life, the associated costs will be entered on the liabilities side in the form of an accrual for costs of disposal and capitalized as part of acquisition or production costs. The accruals and provisions are reported at the value corresponding to the best possible estimate of the expenditure required to fulfill the obligation. If the present value of the accrual established using a standard market interest rate is significantly different from the nominal value, the present value of the obligation shall be used.

An accrual for warranties is recognized once the underlying products or services are sold. The accrual is based on historical warranty data and a weighting of all possible outcomes with the related probabilities.

2.8.11. TAXES

Tax expenditure includes current and deferred taxes. Current taxes and deferred taxes are recognized in profit or loss, except to the extent that they relate to a merger or to an item recognized directly in equity or in the further comprehensive income.

The Group has determined that interest and penalties on income taxes, including uncertain tax items, do not meet the definition of income taxes and are therefore to be accounted for in accordance with IAS 37.

Current taxes

Current taxes are the expected tax payable or receivable on taxable income or tax loss for the year based on tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable for earlier years. The amount of the expected tax liability or asset reflects the amount that represents the best estimate, taking into account tax uncertainties, if there should be any. Actual tax liabilities also include all tax liabilities arising as a result of the determination of dividends.

Current taxes for individual companies within the RATH Group are calculated from the income tax liability of the company and the tax rate applicable in the respective country. Current tax assets and liabilities are netted only under certain conditions.

Deferred taxes

Deferred taxes are recognized for temporary differences between the book values of assets and liabilities for Group accounting purposes and the amounts used for tax purposes and for tax loss carryforwards. Deferred taxes are not recognized for

› temporary differences upon initial valuation of assets or liabilities in a transaction that is not a merger of companies and affects neither the balance sheet result before taxes nor the taxable result.
› temporary differences associated with investments into subsidiaries, associates and jointly controlled entities, provided that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.
› taxable temporary differences upon initial valuation of goodwill.

A deferred tax asset is recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which it can be utilized. Future taxable profits are determined on the basis of the reversal of taxable temporary differences. If the amount is not sufficient to fully capitalize deferred tax assets, the future taxable profits – taking into account the reversal of temporary differences – are to be determined on the basis of the individual business plans of the subsidiaries. Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the related tax benefit will be realized; appreciations are made whenever the probability of future taxable income improves.

Unrecognized deferred tax assets are reassessed at each balance sheet date and recognized to the extent that it is probable that future taxable profit will allow the asset to be recovered.

Deferred taxes are assessed using the tax rates expected to apply to temporary differences as soon as they reverse, using tax rates in force or announced at the balance sheet date.

The assessment of deferred taxes reflects the fiscal consequences arising from the Group's expectations regarding the manner in which the book values of its assets and liabilities will be recovered or settled at the balance sheet date.

Deferred tax assets and deferred tax liabilities are to be netted if certain conditions are met.

The determination of the tax deferral was based on a tax rate of 25 % in Austria, 31 % in Germany, 9 % in Hungary and 29 % in the USA.

2.8.12. FINANCIAL LIABILITIES

Financial liabilities are classified and assessed at amortized cost or at fair value in the P&L account (FVTPL; relates only to derivatives). Financial liabilities at FVTPL are assessed at fair value, and net gains or losses, including interest expense, are recognized in profit or loss. Other financial liabilities are subsequently assessed at amortized cost using the effective interest method. Interest expenses and foreign currency translation differences are recognized in profit or loss. Profits or losses from write-off are also recognized in profit or loss.

2.8.13. LIABILITIES FROM GOODS AND SERVICES AND OTHER LIABILITIES

Liabilities from goods and services are valued when the liabilities are incurred at the amount of the fair value of the services received. As a result, these liabilities are assessed at amortized cost. Other liabilities not resulting from service relationships are reported at payment amount.

2.8.14. DERIVATIVE FINANCIAL INSTRUMENTS

In the context of the derivative financial instruments, the RATH Group held an interest rate swap until June 2018 that served economically to hedge a variable-rate liability, for which, however, hedge accounting in accordance with IAS 39 was not applied. As per 31-DEC-2018, the RATH Group does not hold any derivative financial instruments.

2.8.15. REVENUE RECOGNITION PERFORMANCE OBLIGATIONS AND REVENUE RECOGNITION METHODS

Turnover is measured on the basis of the consideration specified in a contract with a customer. The Group recognizes proceeds when it transfers power of disposal over a good or service to a customer.

The following table provides information on the nature and timing of the settlement of performance obligations under contracts with customers, including significant terms of payment and the related revenue recognition principles.

TYPE OF PRODUCT/ SERVICE	TYPE AND DATE OF FULFILLMENT OF THE BENEFIT OBLIGATION	REVENUE RECOGNITION IN ACCORDANCE WITH IFRS 15 (TO BE APPLIED FROM 01-JAN-2018)	REVENUE RECOGNITION IN ACCORDANCE WITH IAS 18 (TO BE APPLIED BEFORE 01-JAN-2018)
Orders for goods	Customers acquire power of disposal over standard products when the goods have been delivered to the respective customer's premises and there accepted by the same, or when control has been transferred according to the agreed Incoterm. At this point, the invoices are created.	Proceeds are recognized when the goods have been delivered to the customer's premises and there accepted by the same, or when control has been transferred according to the agreed Incoterm.	Sales revenue was recognized when the goods were delivered to the customer's premises, i.e. when the customer accepted the goods and the related risks and rewards of ownership, provided that the yields could be assessed reliably at that time.
Delivery of materials including services	Delivery of materials refers to standardized products, which are adapted to customer requirements only in the course of the installation work. Sales revenue is recognized at the time when beneficial ownership and the associated risks and rewards are transferred in accordance with the agreed delivery terms (generally at the time of delivery to the construction site). Therefore the performance obligation is date-based. Assembly is a customer-specific performance. For this reason, this is a period-based performance obligation.	The revenue recognition of the goods delivery is date-based, as soon as the customer has gained control over the goods. The revenue recognition for services (assembly) is period-based according to the stage of completion of the work.	Sales revenue was recognized when the goods were delivered to the customer's premises, i.e. when the customer accepted the goods and the related risks and rewards of ownership. Sales revenue was recognized at that time, provided that the sales revenue and costs could be assessed reliably, it was probable that the consideration would be received, and there was no continuing right of disposal over the goods.

2.8.16. FINANCING EXPENSES AND FINANCIAL INCOME

The financial income and financial expenses of the Group comprise:

- Interest income
- Interest expenses
- Dividend income
- Net gains or losses from financial assets assessed at FVTPL
- Foreign exchange gains and losses from financial assets and liabilities
- Impairing losses (and reversals of impairing losses) of investments in debentures assessed at amortized cost

Interest income and expenses are recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss at the time when the Group has a legal right to receive payment.

The effective interest rate is the interest rate that exactly discounts the estimated future cash outflows or receipts over the expected lifetime of the financial instrument:

- on the net book value of the financial asset, or
- on the residual book value of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross book value of the asset (if the asset's credit rating is not impaired) or to the residual book value of the liability. For financial assets that are impaired in terms of credit rating after initial recognition, by contrast, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the credit rating of the asset is no longer impaired, interest income is again calculated on a gross basis.

2.8.17. USE OF DISCRETIONARY DECISIONS AND ESTIMATES

The preparation of the consolidated financial statements in accordance with IFRS requires discretionary decisions and the making of assumptions by the company's management regarding future developments which may have a decisive influence on the value and valuation of assets and liabilities, on the recording of other liabilities as per the balance sheet date, and on the disclosure of proceeds and expenditure during the business year. With respect to liabilities and impairments not recorded in the balance sheet and arising from sureties, guarantees and other contingencies, regular estimates are made as to whether recognition is required in the consolidated financial statements. The estimates and underlying assumptions are continually reviewed. The actual values may deviate from the assumptions and estimates made if the specified framework conditions develop in a fashion contrary to the expectations on the balance sheet date.

Amendments are made in the P&L account when dictated by the facts, and premises are adapted accordingly.

Information about discretionary decisions in the application of accounting policies that have the most significant effect on the amounts recognized in the financial statements is provided in the Annex Notes:

› Revenue recognition: Recognition of turnover from the delivery of goods including services over a period of time or at a specific point in time
› Leasing classification

The following matters are subject to assumptions and estimation uncertainties as per 31-DEC-2018, which could give rise to a considerable risk that a substantial adjustment of the book values of assets and liabilities will become necessary within the next business year:

› The valuation of deferred taxes is based on the assumption that sufficient taxable earnings will be generated in the future to utilize loss carryforwards.
› Valuation and recognition of accruals and provisions, and of contingent receivables and liabilities: significant assumptions about the probability and extent of the inflow or outflow of economic benefits.
› For the valuation of existing pension and severance payment liabilities, assumptions are used regarding interest rates, retirement age, life expectancy, fluctuation and future salary increases. The Group determines the reasonable discount rate at the end of each year. When determining the discount rate, the Group uses the interest rate for industrial bonds with maximum credit rating in the currencies in which the payments are made, with terms that match those specified in the pension and severance obligations.
› Value adjustments for inventories are conducted based on the storage duration; inventories that probably cannot be sold within a year are subjected to a value correction (up to 100 %).
› Accounting for financial instruments.
› Value adjustment due to the expected credit losses on receivables from goods and services and contractual assets: Key assumptions used in determining the weighted average loss rate.
› When assessing the useful lives of tangible assets, estimates are made regarding the economic useful life (remaining period of use). During the annual inspection of the useful lives, reductions or extensions may also be made.

2.8.18. USE OF DISCRETIONARY DECISIONS AND ESTIMATES

Errors from earlier periods are changed retroactively. The consolidated financial statements are presented with all figures from the previous year as if the error from the earlier periods had never occurred. Changes to accounting-related estimates must be executed prospectively.

3. EXPLANATORY NOTES ON THE ITEMS OF THE BALANCE SHEET AND P&L ACCOUNT

(1) Tangible assets

	REAL ESTATE AND K€	BUILDINGS (INCLUDING BUILDINGS ON THIRD-PARTY GROUND) K€	TECHNICAL SYSTEMS K€	OTHER ASSETS AND BUSINESS EQUIPMENT K€	ASSETS FROM FINANCIAL LEASING K€	INSTALLATIONS UNDER CONSTRUCTION K€	TOTAL K€
Acquisition costs							
As per 01-JAN-2017	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
Repostings	0	115	2,676	9	-250	-2,564	-14
Exchange rate change	-9	-450	-1,693	-320	-381	-1	-2,853
As per 31-DEC-2017	**466**	**24,420**	**84,993**	**18,427**	**4,282**	**991**	**133,580**
Additions	0	513	2,498	509	0	1,646	5,166
Disposals	0	0	-187	-239	0	0	-427
Repostings	0	289	201	16	0	-506	0
Exchange rate change	-7	58	328	82	119	-14	566
As per 31-DEC-2018	**459**	**25,280**	**87,833**	**18,795**	**4,401**	**2,117**	**138,886**
Cumulative depreciation and amortization							
As per 01-JAN-2017	-1	-14,251	-66,286	-10,922	-2,404	0	-93,863
Additions	0	-641	-2,723	-540	-156	0	-4,061
Disposals	0	0	-7	79	0	0	72
Exchange rate change	0	118	1,219	50	190	0	1,576
As per 31-DEC-2017	**-1**	**-14,774**	**-67,797**	**-11,333**	**-2,370**	**0**	**-96,276**
Additions	0	-505	-2,992	-578	-153	0	-4,227
Disposals	0	0	194	215	0	0	409
Exchange rate change	0	-6	-267	0	-70	0	-343
As per 31-DEC-2018	**-1**	**-15,285**	**-70,862**	**-11,695**	**-2,592**	**0**	**-100,436**
As per 01-JAN-2017	**474**	**9,913**	**14,372**	**7,142**	**2,510**	**2,578**	**36,988**
As per 31-DEC-2017	**465**	**9,646**	**17,196**	**7,094**	**1,912**	**991**	**37,304**
Book value as per 31-DEC-2018	**458**	**9,995**	**16,971**	**7,100**	**1,809**	**2,116**	**38,449**

There were no impairing losses in the depreciations item in 2018 or 2017.

As per 31-DEC-2018, the purchase commitment regarding tangible assets was k€ 1,047 (previous year: k€ 1,079).

(2) Intangible assets

	SOFTWARE K€	OTHER RIGHTS K€	INTERNALLY DEVELOPED ASSETS K€	TOTAL K€
Acquisition costs				
As per 01-JAN-2017	1,663	174	399	2,237
Additions	27	0	66	93
Repostings	14	0	0	14
Exchange rate change	-38	0	0	-39
As per 31-DEC-2017	**1,666**	**174**	**465**	**2,305**
Additions	42	0	286	328
Disposals	-16	0	0	-16
Exchange rate change	8	0	0	8
As per 31-DEC-2018	**1,700**	**174**	**751**	**2,625**
Cumulative depreciation and amortization				
As per 01-JAN-2017	-1,455	-173	-210	-1,838
Additions	-58	0	-38	-97
Exchange rate change	26	0	0	26
As per 31-DEC-2017	**-1,488**	**-173**	**-248**	**-1,909**
Additions	-47	0	-32	-79
Disposals	16	0	0	16
Exchange rate change	-3	0	0	-3
As per 31-DEC-2018	**-1,523**	**-173**	**-280**	**-1,976**
As per 01-JAN-2017	**208**	**0**	**190**	**398**
As per 31-DEC-2017	**177**	**0**	**218**	**395**
Book value as per 31-DEC-2018	**177**	**0**	**471**	**649**

Internally generated intangible assets mainly consist of costs for the development of high-temperature fiber.

(3) Other financial assets

See Annex Note 2 for the accounting methods. The effect of the first-time application of IFRS 9 on the Group's financial instruments is presented in Annex Note 2.4. Due to the transition method selected, comparative information was not adjusted.

Financial assets are securities classified at FVTPL in accordance with IFRS 9. The other financial assets comprise co-ownership shares in three funds and serve exclusively to cover accruals and provisions for severance payments in accordance with the provisions of §§ 14 and 116 of the EStG (Austrian Income Tax Act). Valuation takes place at fair value. They must be valued at FVTPL. In the previous year, they were allocated to the "available for sale" category. Changes in fair value are recognized in the P&L account.

(4) Inventories

	31-DEC-2018 K€	31-DEC-2017 K€
Raw materials, consumables and supplies	3,799	3,338
Finished Goods	11,650	12,087
Other inventories	4,168	4,084
Merchandise	2,583	2,030
Value adjustments for inventories	-790	-696
	21,409	**20,843**

The RATH Group reviews the recoverability of the inventories at regular intervals and compares them with the recoverable net realizable value in the sales market; if necessary, a depreciation to the net realizable value is recognized in the P&L account. In 2018, the inventories were tested for impairment, and consequently k€ 94 (previous year: k€ 119) were recognized as expense from depreciations on the net realizable value.

(5) Receivables from goods and services

	31-DEC-2018 K€	31-DEC-2017 K€
Receivables from goods and services	16,667	16,915
Contract liabilities *	-1,240	0
Value adjustments	-854	-1,039
	14,572	**15,876**
of which non-current	**0**	**0**

* Contract liabilities include advance payments received from customers, which were reported as other liabilities in the business year 2017 (see Annex Note 3.14). The amount reported under contract liabilities as per 01-JAN-2018 to the amount of k€ 716 was recognized as sales revenue in the business year 2018.

The value adjustments are developing as follows:

	31-DEC-2018 K€	31-DEC-2017 K€
Value adjustment as per 31-DEC-2017 in accordance with IAS 39	**1,039**	**699**
Additional impairing loss as per 01-JAN-2018 on:		
Receivables from goods and services and other receivables as per 31-DEC-2017	101	0
Value adjustment as per 01-JAN-2018 according to IFRS 9	**1,140**	**0**
Use	-3	6
Reversal	-319	-7
Allocation to reserves	33	356
Currency conversion	4	-15
As per 31-DEC-2018	**854**	**1,039**

The effect of the first-time application of IFRS 9 is shown in Annex Note 2.4.

Credit and market risks as well as impairment of receivables from goods and services are discussed in Annex Note 4.2.

(6) Other receivables and accruals and deferrals

	31-DEC-2018 K€	31-DEC-2017 K€
Other receivables	414	179
Financial assets	**414**	**179**
Receivables tax office and social security contributions	1,782	764
Miscellaneous other receivables	427	309
Other non-financial receivables	**2,208**	**1,072**
Accruals and deferrals	237	349
Total	**2,860**	**1,600**

(7) Cash and cash equivalents

	31-DEC-2018 K€	31-DEC-2017 K€
Cash	19	22
Bank balances	25,449	19,547
	25,468	**19,569**

Bank balances are freely available.

(8) Equity

Unchanged compared to the previous year, the authorized capital is reported as RATH AG's nominal capital of k€ 10,905. It consists of 1,500,000 non-par value shares. The shares are fully paid up.

The appropriated capital reserves of k€ 1,118 (previous year: k€ 1,118) reported in the annual financial statements of RATH AG as per 31-DEC-2018 may be released only to offset a balance sheet loss otherwise to be reported in the annual financial statements of the parent company.

The available reserves are the result of profits and loss carryforwards that were generated within the Group. The other reserves comprise the generated further comprehensive income less currency conversion differences which are recorded in a separate reserve (differences in currency conversions).

Dividends are determined according to the net earnings reported in the annual financial statements of the parent company in accordance with corporate law. As per 31-DEC-2018, RATH AG reported net earnings to the amount of k€ 10,341. Due to the solid Group result of 2018 and the stable outlook on the business year 2019, the Executive Board will suggest a dividend payout to the amount of € 1 per no-par share at the upcoming General Meeting.

The shares of non-controlling shareholders in the company's equity relate to Chamottewaren- und Thonöfenfabrik Aug. RATH jun. GmbH, Austria, and are not substantial.

(9) Employee benefits

Pension obligations

The pension obligation is based on individual contractual promises, to be paid to a total of two pensioners/executives in Austria after their retirement.

Severance payment obligations

Pursuant to statutory regulations, the RATH Group is obliged to make a severance payment to all employees in Austria whose employment commenced before 01-JAN-2003 if they are dismissed by the employer, or when they retire. The amount depends on the number of years of service and the salary at the time of termination, and amounts to between 2 and 12 monthly salaries. With effect from 31-DEC-2002, the option to freeze all existing severance-pension entitlements was applied, and all employees were transferred to the new "Employee Benefit Fund" system. An accrual is formed for these frozen obligations.

For all valid Austrian employment relationships after 31-DEC-2002, from the second month of the employment contract on the RATH Group pays 1.53 % of the employee's salary into the Employee Benefit Fund each month, where the contributions are invested in an employee account and are either paid or transferred as entitlement to the employee upon termination of the employment contract. The RATH Group is obliged solely to pay the contributions. For this contribution-based pension model, therefore, no accrual needs to be established.

Anniversary bonus reserves

Due to statutory regulations, the RATH Group is required to pay anniversary bonuses to the amount of 1–3 monthly salaries to all employees in Austria who have exceeded a certain employment period.

Calculation parameters for employee benefits

The calculations for employee benefits as per 31-DEC-2018 and 31-DEC-2017 are based on the following parameters:

	2018	2017
Interest rate Pensions	1.05 %	2.00 %
Interest rate Severance payments	1.50 %	2.00 %
Interest rate Anniversary	2.00 %	2.00 %
Salary increase	2.00 %	2.50 %
Pension increase	1.75 %	1.75 %
Probability of death	AVÖ 2018-P	AVÖ 2008-P

Through the Federal Constitution Act on Different Age Limits, the starting age for women's pensions will be gradually increased from 60 to 65 years starting in 2024. Starting in 2033, men and women may retire with pensions at 65.

	2018 K€	2017 K€
Accruals and provisions for severance payments	692	787
Accruals and provisions for pensions	2,200	2,113
Accruals and provisions for anniversary bonuses	290	291
	3,183	**3,192**

Development of the accrual (DBO) recorded in the annual report	SEVERANCE PAYMENT ACCRUAL 2018 K€	SEVERANCE PAYMENT ACCRUAL 2017 K€	PENSION ACCRUAL 2018 K€	PENSION ACCRUAL 2017 K€	ANNIVERSARY BONUS ACCRUAL 2018 K€	ANNIVERSARY BONUS ACCRUAL 2017 K€
Cash value of accrual (DBO) on 01-JAN	**787**	**783**	**2,113**	**2,096**	**291**	**277**
Service costs	24	27	0	0	57	20
Interest expenses	14	14	40	35	6	5
Recorded in the P&L account	**38**	**40**	**40**	**35**	**63**	**25**
Actuarial profits/losses						
from experience-related adjustments	3	1	36	266	0	0
from changes in demographic assumptions	5	0	70	0	0	0
from changes in financial assumptions	0	18	140	-30	0	0
Recorded in further comprehensive income	**9**	**19**	**247**	**236**	**0**	**0**
Payments	-142	-54	-200	-200	-33	-12
Other changes	0	0	0	-54	-31	2
Cash value of accrual (DBO) on 31-DEC	**692**	**787**	**2,200**	**2,113**	**290**	**291**

Expected benefits for the following year 2019 are as follows:

SEVERANCE PAYMENT ACCRUAL K€	PENSION ACCRUAL K€	ANNIVERSARY BONUS ACCRUAL K€
13	200	11

For the RATH Group, the risk is primarily in the development of life expectancy and inflation because the benefits from these care plans are life-long pension benefits. There are no further (extraordinary) risks. For the severance payments and the anniversary bonus payments, the risk is primarily in the development of inflation and wage increases.

Impact Change Return interest rate	INCREASE BY 0.5 % K€	REDUCTION BY 0.5 % K€
Change to accruals and provisions payments	-32	4
Change to accruals and provisions for pensions	-76	80
Change to the accrual for anniversary bonus payments	-19	21

Impact Change Payment increase	INCREASE BY 0.5 % K€	REDUCTION BY 0.5 % K€
Change to accruals and provisions payments	34	-32
Change to accruals and provisions for pensions	80	-76
Change to the accrual for anniversary bonus payments	21	-19

Pension payments to beneficiaries amounted to k€ 200 during the business year (previous year: k€ 200).

The weighted duration of the pension obligation amounts to 6.27 years (previous year: 6.32), that of the severance payment obligations 10.73 years (previous year: 8.71), that of the anniversary bonus payments 18.63 years (previous year: 18.15).

(10) Financial liabilities

	31-DEC-2018			31-DEC-2017		
	LONG-TERM KE	CURRENT KE	TOTAL KE	LONG-TERM KE	CURRENT KE	TOTAL KE
Liabilities towards banks						
Overdraft facility	2,000	2,000	4,000	4,000	0	4,000
Investment loan	35,000	38	35,038	35,038	152	35,190
Liabilities to other creditors						
Finance leasing	97	835	932	996	264	1,260
	37,097	**2,873**	**39,970**	**40,034**	**416**	**40,449**

The maturities of financial liabilities are reported in Item 4.2. Liquidity risk.

The main conditions of financial liabilities are as follows:

TYPE OF FINANCING	CUR-RENCY	EFFECTIVE INTEREST 2018 %	BOOK VALUE AS PER 31-DEC-2018 K€	INTEREST FIXED/ VARIABLE	DUE DATE	CUR-RENCY	EFFECTIVE INTEREST 2017 %	BOOK VALUE AS PER 31-DEC-2017 K€	INTEREST FIXED/ VARIABLE	DUE DATE
Overdraft facility	€	1.50	2,000	variable	< 1 year	€	1.5 - 1.9	4,000	variable	> 1 year
Overdraft facility	€	1.90	2,000	variable	> 1 year					
Investment loan	€	1.35 - 2.11	35,000	variable	> 1 year	€	1.35 - 5.01	35,189	variable	> 1 year
Investment loan	€	5.01	38	variable	< 1 year					
Financing leasing	€	3.15	744	variable	< 1 year	€	3.15	822	variable	> 1 year
Financing leasing	$	3.70	91	fixed	< 1 year	$	3.7 - 6.65	437	fixed	> 1 year
Financing leasing	$	6.65	97	fixed	> 1 year					
			39,970					**40,449**		

With regard to the fair values, we refer to 4.1. Financial instruments: The fair values are determined as cash value of the anticipated cash flow. The calculation is based on a risk-adequate discount factor.

(11) Accruals and provisions

	STAFF K€	OTHER K€	TOTAL K€
As per 31-DEC-2017	**598**	**172**	**770**
Acquisition	591	227	817
Consumption	-598	-168	-767
As per 31-DEC-2018	**591**	**230**	**820**

Staff provisions mainly comprise premium provisions, and accruals and provisions for statutory accident insurance. The other reserves consist of accruals and provisions for legal and consultation costs, accruals and provisions for supervisory board payments, and uncertain liabilities.

All the accruals and provisions listed in the above table are short-term.

(12) Income taxes

Tax expenditure consists of the following:

	2018 K€	2017 K€
Corporate tax for the business year (actual tax liability)	1,582	921
Deferred taxes	724	-401
	2,306	**520**

Temporary differences between the amount stated in the IFRS consolidated financial statements and the respective fiscal valuation or loss carryforwards, respectively, have the following impact on deferred taxes reported on the balance sheet:

	2018 K€	2017 K€
Reported in the balance sheet:		
Deferred tax	1,385	2,032
Deferred tax liabilities	-101	-113
Deferred taxes (net)	**1,283**	**1,919**

	31-DEC-2018 K€	31-DEC-2017 K€
Holdings of deferred tax assets and liabilities:		
Deferred tax assets		
Liabilities from leasing transactions	186	279
Staff provisions IAS 19	1,371	1,116
Stock-in-trade	107	237
Receivables	20	36
Other	92	91
Temporary differences in the foreign currency valuation	2	20
Loss carryforwards	2,677	3,043
Subtotal deferred tax assets	**4,455**	**4,822**
Balancing	-3,070	-2,790
Deferred tax	**1,385**	**2,032**
Deferred tax liabilities		
Temporary differences in fixed assets	2,064	2,029
Staff provisions IAS 19	1,108	873
Subtotal deferred tax liabilities	**3,171**	**2,902**
Balancing	-3,070	-2,790
Deferred tax liabilities	**101**	**113**
Deferred taxes (net)	**1,283**	**1,919**

Due to the currently applicable tax regulations, it can be assumed that differences from retained profits between the fiscal participation amount and the pro rata equity of subsidiaries included in the consolidated financial statements shall mostly remain non-taxable. No tax deferral has therefore been established in this regard.

On 31-DEC-2018, there were temporary differences in connection with shares in subsidiaries amounting to k€ 6,672 (previous year: k€ 5,164). For this difference, no deferred tax liabilities were reported, because the Group can control the liquidation of temporary differences.

There is a tax allocation contract in accordance with § 9 VIII of the KStG (Austrian Corporation Tax Law) 1988 (Group parent Rath AG – Group member Aug. Rath jun. GmbH and RATH Filtration GmbH) for the purpose of group taxation.

Deferred taxes on the loss carryforwards to the amount of 9,999 k€ (previous year: 11,636 k€) have been capitalized, as on the basis of existing plans it is probable their use will be offset with future fiscal profits.

Regarding the loss carryforwards to the amount of k€ 12,250 (previous year: 12,672 k€), no deferred taxes have been capitalized, as it is unlikely from the current perspective that they will be offset on the reporting date with future fiscal profits from individual companies. From 2022 to 2037, k€ 10,874 of the loss carryforwards that were not recognized are forfeitable, and k€ 1,217 vested.

The causes of the difference between the tax burden expected in accordance with the Austrian corporation tax rate of 25 % and the income tax expense breaks down as follows:

	2018 K€	2017 K€
Pre-tax earnings	8,170	2,891
Expected tax burden	25 %	25 %
	2,042	**723**
Tax rate differences	179	40
Non-deductible expenses	178	36
Tax relief and non-taxable yields	-2	-1
Tax corrections from prior periods	-49	-65
Initially reported or non-reported active deferred tax on loss carryforwards	-42	-213
Effective tax burden	**2,307**	**520**

The tax recognized in the further comprehensive income is as follows:

TAXES RECOGNIZED IN THE FURTHER COMPREHENSIVE INCOME	2018 BEFORE TAXES K€	2018 TAX INCOME (EXPENSE) K€	2018 AFTER TAXES K€	2017 BEFORE TAXES K€	2017 TAX INCOME (EXPENSE) K€	2017 AFTER TAXES K€
Items not reclassified to profit or loss						
Revaluation of net debt (asset) from performance-oriented benefit pension plans	255	-64	192	255	-64	191
Financial assets available for sale – Net change in fair value (IAS 39)	0	0	0	5	-1	4

(13) Liabilities from goods and services

	31-DEC-2018 K€	31-DEC-2017 K€
Liabilities from goods and services	7,682	5,970
	7,682	**5,970**

No non-current items are included in the liabilities from goods and services.

(14) Other liabilities

The other liabilities are classified as follows:

	31-DEC-2018 K€	31-DEC-2017 K€
Other liabilities	1,454	1,050
Derivatives	0	105
Other financial liabilities	**1,454**	**1,155**
of which non-current	0	0
Liabilities Tax	1,202	537
Liabilities Social Security Contributions	347	411
Miscellaneous other liabilities	176	176
Accruals and deferrals	744	0
Other liabilities	**2,469**	**1,839**
of which non-current	176	176
Accruals	**844**	**632**
from vacation entitlements	411	613
from overtime hours	-4	19
	4,767	**3,626**
of which non-current	**176**	**176**

Other liabilities as per 31-DEC-2017 also comprise advance payments received from customers to the amount of k€ 716, which will be recognized as contract liabilities in accordance with IFRS 15 from 01-JAN-2018 on.

(15) Derivative financial instruments

The derivative financial instruments in 2017 were an interest swap economically serving the hedging of a variable-interest liability, to which, however, hedge accounting according to IAS 39 was not applied. The interest rate swap expired in June 2018. The Group does not hold any other derivative financial instruments.

(16) Sales revenue and business segment reporting

The business segments are presented by region. The business segmentation by regions corresponds to the RATH Group's internal reporting system, which is regularly presented to the chief operating decision-maker, the Executive Board of RATH AG.

Assets and liabilities as well as yields and expenses are allocated to the individual business segments only if and insofar as they are attributable to the respective business segments directly or by way of a reasonable procedure.

Allocations between the individual segments are performed using the arm's length principle.

Business segment information is subject to the same accounting and valuation principles as the consolidated financial statements and carried out according to regions.

The business segmentation comprises the following regions:

Austria:	RATH AG, Aug. RATH jun. GmbH, RATH Filtration GmbH
Germany:	RATH GmbH
Hungary:	RATH Hungaria Kft.
USA:	RATH Inc.
Rest of world:	RATH Zarotechnika, RATH Polska, RATH Ukraina TOW, RATH Group srl., Mexico

The segment assets according to geographic markets correspond to those of the business segmentation.

Business segmentation by region

The next two tables classify sales as "Orders for goods" and "Deliveries of materials including services". In the case of orders for goods, the RATH Group delivers only goods or materials, respectively, while in the case of "Deliveries of materials including services" the RATH Group also delivers assembly work is included.

	AUSTRIA K€	GERMANY K€	HUNGARY K€	USA K€	REST OF WORLD K€	CONSOLIDATED K€	TOTAL K€
Year 2018							
Orders for goods	23,158	19,362	8,178	12,645	974	0	64,316
Material deliveries including services and support	5,743	14,906	3,254	1,521	4,723		30,146
Intra-Group sales	10,321	9,427	5,464	145	127	-25,485	0
Other sales	0	26	0	0	0	0	26
Total	**39,222**	**43,721**	**16,896**	**14,311**	**5,824**	**-25,485**	**94,488**
Segment result (EBIT)	**3,538**	**4,183**	**547**	**18**	**197**	**-61**	**8,422**
Financial income	1,756	93	74	9	43	-760	1,215
Financial expenses	-1,101	-119	-394	-603	-93	842	-1,467
Financial result	**655**	**-25**	**-320**	**-594**	**-51**	**83**	**-253**
Earnings before tax (EBT)	**4,193**	**4,158**	**227**	**-576**	**146**	**22**	**8,170**
Income tax	-1,107	-1,323	-20	209	-52	-12	-2,306
Annual yield	**3,086**	**2,834**	**207**	**-367**	**94**	**9**	**5,864**
Segment assets	88,087	36,327	13,635	18,649	4,045	-53,987	106,756
Segment liabilities	57,989	7,795	9,456	17,620	2,400	-36,855	58,405
Investments	-738	3,021	735	423	78	1,960	5,479
Depreciation and amortization	1,268	1,597	420	983	38	0	4,306

	AUSTRIA K€	GERMANY K€	HUNGARY K€	USA K€	REST OF WORLD K€	CONSOLIDATED K€	TOTAL K€
Year 2017							
Orders for goods	19,679	17,489	6,074	11,827	798	0	55,867
Material deliveries including services and support	5,715	11,701	5,978	2,560	4,490	0	30,444
Intra-Group sales	9,432	9,558	4,429	16	287	-23,722	0
Other sales	0	27	0	0	0		27
Total	**34,827**	**38,775**	**16,481**	**14,403**	**5,574**	**-23,722**	**86,338**
Segment result (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 tax (EBT)	**3,836**	**2,823**	**504**	**-754**	**336**	**-3,855**	**2,891**
Income tax	-285	-815	-55	437	-35	233	-520
Annual yield	**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
Investments	1,397	2,752	1,350	286	3	0	5,788
Depreciation and amortization	1,348	1,423	385	961	41	0	4,157

The following tables show the revenue from contracts with customers according to the main areas METALS, FUELS, CHEMICALS & ENERGY, CERAMICS, SPECIAL FURNACES and DOMESTIC FIREPLACES:

Sales by region and Business Lines Year 2018	AFRICA & ASIA 1 K€	ASIA 2 & AUSTRALIA / OCEANIA K€	EASTERN EUROPE K€	SOUTHERN EUROPE K€	WESTERN EUROPE K€	WESTERN HEMISPHERE K€	TOTAL K€
METALS	1,171	167	7,291	4,539	16,075	537	29,779
CERAMICS	94	243	2,634	1,294	9,887	2,703	16,855
FUELS, CHEMICALS & ENERGY	926	419	6,150	3,280	6,488	3,729	20,993
GLASS	988	142	1,389	380	1,097	1,392	5,388
SPECIAL FURNACES	207	2,259	3,157	577	4,951	3,652	14,804
DOMESTIC FIREPLACES	0	0	3,312	1,348	2,831	8	7,499
OTHER SALES	0	0	0	0	26	0	26
Sales deductions	**0**	**0**	**-542**	**0**	**-314**	**0**	**-856**
Total in k€	**3,387**	**3,230**	**23,392**	**11,417**	**41,042**	**12,020**	**94,488**

Sales by region and Business Lines Year 2017	AFRICA & ASIA 1 K€	ASIA 2 & AUSTRALIA / OCEANIA K€	EASTERN EUROPE K€	SOUTHERN EUROPE K€	WESTERN EUROPE K€	WESTERN HEMISPHERE K€	TOTAL K€
METALS	555	48	5,288	2,841	13,506	749	22,987
CERAMICS	285	12	3,384	1,526	8,316	2,724	16,249
FUELS, CHEMICALS & ENERGY	74	693	5,209	5,293	5,293	4,508	21,071
GLASS	1,096	223	745	73	1,254	836	4,226
SPECIAL FURNACES	141	2,437	2,624	463	5,265	4,914	15,845
DOMESTIC FIREPLACES	0	0	3,122	1,509	2,145	3	6,780
OTHER SALES	0	0	0	0	26	0	26
Sales deductions	**0**	**0**	**-526**	**0**	**-319**	**0**	**-846**
Total in k€	**2,152**	**3,414**	**19,847**	**11,705**	**35,486**	**13,734**	**86,337**

(17) Cost of materials and purchased services

	2018 K€	2017 K€
Costs of materials	30,803	28,529
Costs of third-party services	12,459	10,807
	43,262	**39,336**

The outgoing freight and commissions to the amount of k€ 3,045 were included in other expenses in 2017 under third-party transports and commissions and are now reported under costs of materials. The figure from the previous year was adjusted for better comparability.

(18) Staff costs

	2018 K€	2017 K€
Wages and salaries	22,453	20,668
Expenses for statutory taxes and contributions	4,571	4,454
Contribution to the Employee Benefit Fund	364	124
Expenses for severance and anniversary bonus payments	19	75
Other staff costs	413	770
	27,819	**26,091**
Average workforce		
Salaried employees	219	208
Workers	330	328
	549	**536**
Staff count on balance sheet date		
Salaried employees	215	208
Workers	332	332
	547	**540**

(19) Other operating income

	2018 K€	2017 K€
Insurance claims/insurance compensation	19	22
Yields from disposal of fixed assets, excluding financial assets	15	1
Expenses recharged to third parties	1	0
Capitalized services	402	571
Other	108	152
	544	**746**

(20) Other operating expenses

	2018 K€	2017 K€
Maintenance and service	2,087	1,715
Legal counseling and other consultations	1,392	1,520
Travel expenses	1,088	1,008
Rent and lease	1,038	1,181
Advertisement and marketing	865	881
Other expenses	737	534
Other taxes	721	628
IT expenses	592	640
Insurances	438	471
Disposal costs	397	255
Car and truck expenses	371	396
Expenses for work safety	234	208
Energy	186	158
Message expenses	184	215
Education and training	152	158
Contributions for trade associations	136	133
Out-of-pocket costs for monetary transactions	136	171
Transportation by third parties	87	162
Office supplies	73	133
Supervisory board remunerations	70	80
Operational expenses and room costs	63	164
Postage	27	24
Losses from the disposal of tangible assets	25	5
License fees	12	51
Expenses for value adjustments and write-downs of receivables	0	370
	11,110	**11,261**

* as per 2018, any valuation corrections recognized in accordance with IAS 39 (until 2017) as "Other expenses" have been reported in the item "Impairment of accounts receivables and contractual assets" separately in the P&L account.

Other expenses mainly include, as in the previous year, costs for Research and Development, expenses for complaints, expenses from prior periods, and other miscellaneous expenses. The outgoing freight to the amount of k€ 2,312 were included in other expenses in 2017 under third-party transports and are now reported under costs of materials. In addition, commissions to the amount of k€ 733 were reclassified from other expenses to costs of materials and included in the comparative figures for 2017.

(21) Financial result

The financial result according to the categories of the individual financial instruments and divided into interest rate result, profits and losses from valuations, results from disposal and others consists of the following: Reductions in value and appreciations in value for loans and receivables involve receivables from goods and services and are recorded in the operational result.

Financial result in 2017

EARNINGS +/EXPENSES -	VALUATION RESULTS FROM INTEREST INCOME AND INTEREST EXPENSES K€	FINANCIAL INSTRUMENTS ASSESSED AT FAIR VALUE K€	CURRENCY CONVERSION K€	IMPAIRMENT LOSSES AND APPRECIATIONS K€	OTHER GAINS AND LOSSES K€	NET FINANCIAL RESULT K€
Loans and receivables	-620	0	-2,455	-370	-192	-3,636
Available-for-disposal assets	12	0	0	0	0	12
Financial instruments assessed at fair value in the P&L account	0	206	0	0	0	206
Financial liability at amortized cost	-209	0	0	0	0	-209
Cash and cash equivalents	0	0	0	0	-2	-2
Other liabilities	-27	0	0	0	-7	-33
Staff provisions	-54	0	0	0	0	-54
Total	**-897**	**206**	**-2,455**	**-370**	**-200**	**-3,716**
of which reported as other operational expenses	0	0	0	-370	0	-370
of which shown in financial result	-897	206	-2,455	0	-200	-3,346
Total	**-897**	**206**	**-2,455**	**-370**	**-200**	**-3,716**

The new application of IFRS 9 results in the following presentation of the financial result:

Financial result in 2018

EARNINGS +/EXPENSES -	VALUATION RESULTS FROM INTEREST INCOME AND INTEREST EXPENSES K€	FINANCIAL INSTRUMENTS ASSESSED AT FAIR VALUE K€	CURRENCY CONVERSION K€	IMPAIRMENT LOSSES AND APPRECIATIONS K€	OTHER GAINS AND LOSSES K€	NET FINANCIAL RESULT K€
Amortized cost	-719	0	602	-112	0	-229
Mandatory for FVTPL	0	-24	0	0	0	-24
Staff provisions	-60	0	0	0	0	-60
Credit and liability provisions	0	0	0	0	-50	-50
Total	**-779**	**-24**	**602**	**-112**	**-50**	**-364**
of which in impairing losses on accounts receivables	0	0	0	-112	0	-112
of which included in financial result	-779	-24	602	0	-50	-252
Total	**-779**	**-24**	**602**	**-112**	**-50**	**-364**

The other profits and losses comprise loan and guarantee provisions.

(22) Impairing loss from Receivables from goods and services and contractual assets
Impairing loss in the context of trade receivables and other receivables is reported separately in the P&L account. For this reason, the Group will in future report any value adjustments formerly reported under "Other expenses" in accordance with IAS 39 now separately in Sections "Impairment of accounts receivables" and "Contractual assets" in the P&L account.

(23) Research and development
The expenses comprise the following research and development expenses:

	2018 K€	2017 K€
Labor costs	331	426
Technical audit costs	137	128
	468	**554**

4. FINANCIAL INSTRUMENTS

Financial instruments - fair values and risk management
The effect of the first-time application of IFRS 9 on the consolidated financial statements is presented in Annex Note 2.4. Due to the conversion method selected, the comparative figures have not been adjusted.

Classifications and fair values
The following tables show the book values and fair values of financial assets and financial liabilities, including their levels in the fair-value hierarchy. They do not comprise fair value information for financial assets and financial liabilities not assessed at fair value if the book value is an appropriate approximation of fair value.

Trade receivables as well as other liabilities from goods and services and other liabilities classified as held for sale are not included in the following table. Their book value is a reasonable approximation of their fair value.

Fair values

	31-DEC-2018 BOOK VALUE KЄ	31-DEC-2018 FAIR VALUE KЄ	31-DEC-2017 BOOK VALUE KЄ	31-DEC-2017 FAIR VALUE KЄ
Financial assets				
Cash and cash equivalents	25,468	25,468	19,569	19,569
Receivables from goods and services	15,814	15,814	15,876	15,876
Other financial receivables	414	414	179	179
Long-term financial assets	706	706	730	730
Financial liabilities				
Liabilities from goods and services	7,682	7,682	5,970	5,970
Other financial liabilities	1,454	1,454	1,155	1,155
Current bank liabilities	2,038	2,038	152	152
Long-term bank liabilities	37,000	37,551	39,038	38,876
Leasing liabilities	932	932	1,260	1,260

	CATEGORY	VALUATION AT AMORTIZED ACQUISITION COSTS KЄ	VALUATION AT FAIR VALUE KЄ	VALUATION TOTAL KЄ	LEVEL 1 KЄ	LEVEL 2 KЄ	LEVEL 3 KЄ	TOTAL KЄ
31-DEC-2018								
Financial assets								
Cash and cash equivalents	at amortized costs	25,468	0	25,468				
Receivables from goods and services	at amortized costs	15,814	0	15,814				
Other financial receivables	at amortized costs	414	0	414				
Long-term financial assets	Mandatory for FVTPL	0	706	706	706			706
Financial liabilities								
Liabilities from goods and services	at amortized costs	7,682	0	7,682				
Other financial liabilities	at amortized costs	1,454	0	1,454				
Current bank liabilities	at amortized costs	2,038	0	2,038				
Long-term bank liabilities	at amortized costs	37,000	0	37,000				
Leasing liabilities	at amortized costs	932	0	932				

	CATEGORY	VALUATION AT AMORTIZED ACQUISITION COSTS K€	VALUATION AT FAIR VALUE K€	VALUATION TOTAL K€	LEVEL 1 K€	LEVEL 2 K€	LEVEL 3 K€	TOTAL K€
31-DEC-2017								
Financial assets								
Cash and cash equivalents	Loans and receivables	19,569	0	19,569				
Receivables from goods and services	Loans and receivables	15,876	0	15,876				
Other financial receivables	Loans and receivables	179	0	179				
Long-term financial assets	Available for sale	0	730	730	730			730
Financial liabilities								
Liabilities from goods and services	Other financial liabilities	5,970	0	5,970				
Other financial liabilities	Other financial liabilities	1,050	105	1,155		105		105
Current bank liabilities	Other financial liabilities	152	0	152				
Long-term bank liabilities	Other financial liabilities	39,038	0	39,038				
Leasing liabilities	Other financial liabilities	1,260	0	1,260				

4.1. DETERMINATION OF THE FAIR VALUES

Long-term financial assets:
are assessed at fair value, whereby the fair value reflects the price that would be received in a normal transaction between market participants on the measurement date when the non-current financial assets are sold.

Other financial liabilities and liabilities to banks
(Financial instruments not rated at fair value): Discounted cash flows: The valuation model takes into account the present value of the expected payments, discounted at a risk-adjusted discount rate.

4.2. FINANCIAL RISK MANAGEMENT

The Group is exposed to the following risks arising from the use of financial instruments:

› Default risk
› Liquidity risk
› Market risk
› Interest rate fluctuation risk

Principles of risk management

The company's Executive Board bears the responsibility for establishing and monitoring the Group's risk management system. The Group's risk management policies have been developed to identify and analyze the Group's risks in order to implement appropriate risk limits and controls, and to monitor the development of risks and compliance with limits. The risk management policies and the risk management system are regularly reviewed to reflect changes in market conditions and in the Group's activities. The existing training and management standards and the associated processes are intended to ensure a target-oriented control environment in which all employees understand their respective tasks and responsibilities.

The Audit Committee monitors on the one hand compliance by the Executive Board with the policies and processes of Group risk management and on the other the effectiveness of the risk management system with regard to the risks to which the Group is exposed.

Default risk

The default risk is the risk of financial losses that will be incurred if a customer or counterparty to a financial instrument fails to honor its contractual obligations. As a matter of principle, the default risk arises from receivables from goods and services and from the Group's investment certificates held as financial assets.

The book values of the financial assets and contractual assets correspond to the maximum default risk.

Receivables from goods and services

The Group's default risk is influenced mainly by the individual characteristics of its customers. However, the Executive Board also considers the characteristics of the entire customer base, including the default risk of the industrial sector and the countries in which the customers operate, as these factors may also affect the default risk.

For monitoring of the default risk, customers are divided into groups according to their creditworthiness. The geographical location, industrial sector, age structure and the occurrence and duration of payment problems are taken into account. The Group limits its default risk on receivables from goods and services by setting a maximum term of payment of 360 days for corporate customers.

The maximum credit risk of receivables from goods and services relating to customer groups breaks down as follows as per the reporting date:

	31-DEC-2018 K€	31-DEC-2017 K€
Receivables from key customers, gross	3,291	3,292
Receivables from others, gross	13,377	13,623
Total receivables from goods and services, gross	**16,668**	**16,915**
Value adjustments	-854	-1,039
Total receivables from goods and services, net	**15,814**	**15,876**

Approx. 21 % (previous year: 21 %) of the receivables from goods and services of the elapsed business year result from trade relations with 10 key customers. Therefore, the RATH Group does not see any significant concentration of risk.

The economic framework conditions in the individual regions are also being monitored. Appropriate measures are being introduced to limit the risks from customers in countries with unusually volatile economies. The Group does not require collaterals for trade receivables.

The Group assigns each risk to a default risk rating based on data found to predict the risk of loss, and applies tried and tested credit assessments. Default risks within each default risk classification were segmented according to geographical location. For each segment, a default rate for the expected credit loss is calculated based on the default status and actually incurred credit losses over the last seven years. These rates were multiplied with scaling factors to reflect the differences between the economic conditions at the time the historical data were collected, the current conditions, and the Group's view of the economic conditions over the expected term of the receivables.

The loss ratios are calculated using the "roll rate" method, which is based on the probability that a receivable will progress through successive stages in the payment delay. Roll rates are calculated separately for defaults in individual segments based on the credit risk characteristics of the respective geographical location.

The default risk for receivables from goods and services as per 31-DEC-2018 is as follows:

	31-DEC-2018 K€	31-DEC-2017 K€
Receivables from goods and services	15,814	15,876
Other current financial assets	0	0
Other financial receivables	414	179
Other long-term financial assets	706	730
	16,934	**16,785**
Amount before value adjustment	17,788	17,824
thereof		
not due	14,056	11,031
Overdue up to 90 days	2,108	4,940
Overdue 91 to 180 days	340	1,166
Overdue 181 to 360 days	455	575
Overdue more than 360 days	830	111
Thereof impaired	854	1,039
Thereof risk classification 1	722	0
Thereof risk classification 2	132	0

The RATH Group assigns each risk to a default risk rating based on data found to predict the risk of loss, and applies tried and tested credit assessments. These data include, without being limited to, external ratings, audited annual financial statements, management accounts and available customer press releases. Default risk classifications are defined using qualitative and quantitative factors. Classification 1 rates the default risk as doubtful when the customer files for insolvency, while the default risks for Classification 2 are stratified by geographical location. For each locational segment, the default rate for the expected credit loss is calculated based on the default status and actually incurred credit losses over the last seven years. A customer claim is fully written off at that time when the customer has filed for bankruptcy and the RATH Group no longer has any possibility of recovering its claims.

The following table comprises information on the estimated default risk and expected credit losses for trade receivables as per 31-DEC-2018.

		ESTIMATED DEFAULT RISK AND EXPECTED CUSTOMER LOSSES		
	LOSS RATES (WEIGHTED AVERAGE)	GROSS BOOK VALUE K€	VALUE ENTITLEMENT	IMPAIRED CREDIT RATING
31-DEC-2018				
not due	0.69 %	14,056	-98	No
Overdue up to 90 days	1.53 %	2,108	-32	No
Overdue 91 – 180 days	1.87 %	340	-6	No
Overdue 181 – 360 days	2.31 %	455	-10	No
Overdue more than 360 days	85.22 %	830	-707	No
		17,788	**-854**	

The development of the value adjustment for receivables from goods and services is presented in Chapter 3.5.

Liquidity risk

The liquidity risk is the risk that the Group may not be in a position to meet its financial liabilities by delivering cash or other financial assets in accordance with the contract. The purpose of managing the Group's liquidity is to ensure that – as far as possible – sufficient liquid funds are available at any time to meet payment obligations when they fall due, under normal as well as under problematic conditions, without suffering unacceptable losses or damaging the Group's reputation.

The Group uses activity-based cost accounting to calculate its product and service costs. This allows monitoring of cash requirements and optimization of inflows to the capital employed.

The RATH Group monitors the amount of the expected payments from Receivables from goods and services and other receivables together with the expected disbursements from liabilities from goods and services and other liabilities.

Significance of the liquidity risk

The following table shows the contractual residual terms of the financial liabilities as per the balance sheet date, including estimated interest payments. These are non-discounted gross amounts including contractual interest payments, but excluding the effect of netting.

		DUE IN 6 MONTHS		DUE IN 6-12 MONTHS		DUE IN 1-2 YEARS	
	BOOK VALUE KE	INTEREST KE	AMORTIZATION KE	INTEREST KE	AMORTIZATION KE	INTEREST KE	AMORTIZATION KE
Liabilities from goods and services 31-DEC-2018	**7,682**	**0**	**7,682**	**0**	**0**	**0**	**0**
Liabilities from goods and services 31-DEC-2017	5,970	0	5,970	0	0	0	0
Other financial liabilities 31-DEC-2018	**1,454**	**0**	**1,454**	**0**	**0**	**0**	**0**
Other financial liabilities 31-DEC-2017	1,155	0	1,155	0	0	0	0
Current bank liabilities 31-DEC-2018	**2,038**	**328**	**38**	**328**	**2,000**	**0**	**0**
Current bank liabilities 31-DEC-2017	152	7	76	3	76	0	0
Long-term bank liabilities 31-DEC-2018	**37,000**	**0**	**0**	**0**	**0**	**1,174**	**2,000**
Long-term bank liabilities 31-DEC-2017	39,038	332	0	332	0	1,257	4,038
Leasing liabilities 31-DEC-2018	**932**	**17**	**89**	**15**	**746**	**4**	**97**
Leasing liabilities 31-DEC-2017	1,260	23	132	20	132	53	826
Derivative financial instruments 31-DEC-2018	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Derivative financial instruments 31-DEC-2017	105	105	0	0	0	0	0

		DUE IN 2-5 YEARS		DUE AFTER 5 YEARS	
	BOOK VALUE KE	INTEREST KE	AMORTIZATION KE	INTEREST KE	AMORTIZATION KE
Liabilities from goods and services 31-DEC-2018	**7,682**	**0**	**0**	**0**	**0**
Liabilities from goods and services 31-DEC-2017	5,970	0	0	0	0
Other financial liabilities 31-DEC-2018	**1,454**	**0**	**0**	**0**	**0**
Other financial liabilities 31-DEC-2017	1,155	0	0	0	0
Current bank liabilities 31-DEC-2018	**2,038**	**0**	**0**	**0**	**0**
Current bank liabilities 31-DEC-2017	152	0	0	0	0
Long-term bank liabilities 31-DEC-2018	**37,000**	**933**	**15,000**	**289**	**20,000**
Long-term bank liabilities 31-DEC-2017	39,038	1,150	15,000	674	20,000
Leasing liabilities 31-DEC-2018	**932**	**0**	**0**	**0**	**0**
Leasing liabilities 31-DEC-2017	1,260	4	170	0	0
Derivative financial instruments 31-DEC-2018	**0**	**0**	**0**	**0**	**0**
Derivative financial instruments 31-DEC-2017	105	0	0	0	0

Market risk
The pivotal market risks for the RATH Group are the foreign currency risk, interest rate fluctuations, and price variations of raw materials and energy. In this respect, the objective of risk management is to minimize potential losses by monitoring and controlling these risks, taking into account risks and rewards.

Currency risk
The Group is exposed to transactional foreign currency risks to the extent that the rates of currencies in which sales and purchase transactions as well as receivables and credit transactions take place do not match the functional currency of the Group companies. The functional currencies of the Group companies are primarily the euro and the US dollar. The above transactions are conducted mainly based on Euro (€) and US Dollar ($).

Effects of currency risk
The summarized quantitative information on the Group's foreign exchange risk reported to the Group's management is as follows.

Currency risk		IN THE RESPECTIVE LOCAL CURRENCY	
		IN K€	IN K$
Financial assets			
Cash and cash equivalents	**2018**	**398**	**1,007**
	2017	497	1,512
Receivables from goods and services	**2018**	**886**	**0**
	2017	1,241	0
Financial liabilities			
Liabilities from goods and services	**2018**	**-749**	**-1**
	2017	-781	-11
Net exposure	**2018**	**535**	**1,007**
	2017	957	1,501

Sensitivity analysis

A possible strengthening (weakening) of the euro and the US dollar against the other currencies as per 31-DEC would have affected the valuation of the financial instruments in foreign currencies, and would also have had an impact on equity and profit or loss at the amounts shown below. The analysis presumes that all other influencing factors, especially interest rates, remain constant. The influences of the forecast sales and purchase transactions are not taken into account.

Currency risk

EFFECT ON RESULT FOR THE PERIOD IN CASE OF		IN THE RESPECTIVE LOCAL CURRENCY: STRENGTHENING OF THE € BY 9 %	WEAKENING OF THE € BY 11 %	STRENGTHENING OF THE $ BY 10 %	WEAKENING OF THE $ BY 10 %
Financial assets					
Cash and cash equivalents	**2018**	**36**	**44**	**101**	**-101**
	2017	45	55	151	-151
Receivables from goods and services	**2018**	**81**	**98**	**0**	**0**
	2017	113	138	0	0
Financial liabilities					
Liabilities from goods and services	**2018**	**-68**	**-83**	**0**	**0**
	2017	-71	-87	-1	1
Total	**2018**	**49**	**59**	**101**	**-101**
	2017	87	106	150	-150

Interest rate fluctuation risk

Risks from interest rate changes essentially consist of long-term debt financing. A list of all important interest-bearing assets and liabilities as well as impacts of an interest rate change are included in the following tables.

The following sensitivity analysis shows the impact of interest rate changes regarding interest-bearing instruments on the period result of the RATH Group. The analysis assumes that all other variables, especially exchange rates, remain constant.

The RATH Group does not report any fixed-rate financial assets or liabilities in the financial statements at fair value in the P&L account, and, as per the reporting date, has no derivatives as hedging instruments for fair-value hedges. A change to the interest rate regarding fixed rate instruments would have no effect on the consolidated P&L account.

Significance of the interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments, as reported to the Executive Board, is as follows.

Interest rate profile			THEREOF FINANCIAL INSTRUMENTS			PROFIT/LOSS	
		BOOK VALUE K€	NOT INTEREST-BEARING K€	FIXED INTEREST-BEARING K€	VARIABLY INTEREST-BEARING K€	PLUS 100 BASE POINTS K€	MINUS 100 BASE POINTS K€
Interest-bearing liabilities							
Liabilities from goods and services	**2018**	**7,682**	**7,682**	**0**	**0**	**0**	**0**
	2017	5,970	5,970	0	0	0	0
Other financial liabilities	**2018**	**1,454**	**1,454**	**0**	**0**	**0**	**0**
	2017	1,155	1,075	0	80	-19	19
Current bank liabilities	**2018**	**2,038**	**0**	**38**	**2,000**	**-20**	**20**
	2017	152	0	152	0	0	0
Long-term bank liabilities	**2018**	**37,000**	**0**	**20,000**	**17,000**	**-170**	**170**
	2017	39,038	0	20,038	19,000	-190	190
Leasing liabilities	**2018**	**932**	**0**	**188**	**744**	**-7**	**7**
	2017	1,260	0	437	822	-8	8

Interest rate profile			THEREOF FINANCIAL INSTRUMENTS			PROFIT/LOSS	
		BOOK VALUE K€	NOT INTEREST-BEARING K€	FIXED INTEREST-BEARING K€	VARIABLY INTEREST-BEARING K€	PLUS 100 BASE POINTS K€	MINUS 100 BASE POINTS K€
Interest-bearing assets							
Cash and cash equivalents	**2018**	**25,468**	**19**	**0**	**25,449**	**254**	**0**
	2017	19,569	9	0	19,560	196	0
Receivables from goods and services	**2018**	**15,814**	**15,814**	**0**	**0**	**0**	**0**
	2017	15,876	15,876	0	0	0	0
Other current financial receivables	**2018**	**414**	**414**	**0**	**0**	**0**	**0**
	2017	179	179	0	0	0	0
Long-term financial assets	**2018**	**706**	**706**	**0**	**0**	**0**	**0**
	2017	730	730	0	0	0	0

5. OTHER INFORMATION

5.1. RENTAL AND LEASING OBLIGATIONS

The obligations from operating leases affect in particular rent expenses as well as operating lease contracts for vehicles and machines. Obligations from non-terminable rent and leasing obligations by maturity:

	2018 K€	2017 K€
up to 1 year	958	1,085
up to 5 years	908	1,820
more than 5 years	0	0
	1,867	**2,905**

In the reporting year, k€ 1,038 (previous year: k€ 1,181) were recorded as rental and leasing expenses.

Finance leases in the RATH Group mainly relate to warehouses and production buildings, as well as to production and manufacturing facilities. The future minimum lease payments under finance leases that will become due on 31-DEC or expire in subsequent business years are as follows:

	31-DEC-2018			31-DEC-2017		
	FUTURE MINIMUM PAYMENTS K€	INTEREST K€	PRESENT VALUE OF THE FUTURE MINIMUM PAYMENTS K€	FUTURE MINIMUM PAYMENTS K€	INTEREST K€	PRESENT VALUE OF THE FUTURE MINIMUM PAYMENTS K€
up to one year	866	29	837	307	9	298
between one and five years	101	5	95	1,027	65	962
Total of future minimum payments	**967**	**34**	**933**	**1,335**	**74**	**1,260**

5.2. CAPITAL MANAGEMENT

The goal of management is to structure capital in accordance with the requirements of shareholders, banks and creditors so as to ensure optimal development of the Group. The management attempts to strike a balance between a potentially better result and equity at a lower debt level and the necessary operational flexibility provided in part by borrowed capital. Neither the parent company nor subsidiaries are subject to minimum capital requirements due to the Articles of Association or external requirements. The goal of capital management is, on the one hand, to ensure the continued existence of Group companies ("going concern") and, on the other hand, to maximize shareholder return through the optimization of equity and debt capital. The capital structure consists of financial debt, cash and equity that is attributable to the RATH AG stockholders and comprises the authorized capital, the capital reserves and the retained earnings. The capital structure is continuously monitored. To this end, cost of capital and risks inherent in each type of capital are taken into consideration.

The central factor of the monitoring process is the capital ratio; this is continually reviewed by the management and is defined as stockholders equity in the consolidated balance sheet relative to the balance sheet total. The target ratio is above 40 %. The capital ratio as per 31-DEC-2018 amounts to 45.3 % (previous year: 44.7 %).

5.3. CONTINGENCIES AND OTHER COMMITMENTS

Contingencies

The RATH Group has taken on the following contingencies:

	31-DEC-2018 K€	31-DEC-2017 K€
Securities for business partners	2,441	2,759
	2,441	**2,759**

The securities for business partners affect in particular the project business and will be provided in favor of customers to collateralize our performance obligation. There are no return obligations that would exceed industry-standard guarantees. The management is currently not aware of any other off-balance sheet risks and rewards.

Pending legal disputes

As in the previous year, there are no major pending legal disputes pending as per the reporting date.

5.4. RELATED COMPANIES AND INDIVIDUALS

According to IAS 24 (Related Party Disclosures), relationships with related organizations, insofar as they are not already included as consolidated companies into the consolidated financial statements of RATH AG, and related persons must be disclosed. The Group reports on transactions with its related parties or their families, respectively. The Executive Board, Supervisory Board and their family members were defined as related parties.

All transactions with related parties are conducted at arm's length Related parties conducting transactions with the RATH Group include:

› House ownership Walfischgasse, Dr. Ernst Rath and co-owners
  Rental expenses incl. operating costs 2018: k€ 145 (previous year: k€ 154)
› Rath Holding GmbH
  Liability 2018: k€ 0 (previous year: k€ 0)

RATH Holding GmbH owns 66.67 % of the shares in RATH AG. At RATH Holding GmbH, FN 195558k, Dr. Ernst Rath, Mag. Karin Bauer-Rath, and DI Dr. Matthias Rath are registered managing directors. The following partners are listed in the company register: Dr. Ernst Rath GmbH and Dkfm. Paul Rath GmbH. At Dr. Ernst Rath GmbH, FN 102608w, Dr. Ernst Rath and DI Dr. Matthias Rath are registered managing directors. The follow are listed as shareholders in the commercial register: Dr. Ernst Rath, CPA Mag. Philipp Rath and DI Dr. Matthias Rath.

At Dkfm. Paul Rath GmbH, FN 101540z, Mag. Karin Bauer-Rath is registered as managing directors. The follow are listed as shareholders in the commercial register: Mag. Karin Bauer-Rath and Ms. Andrea Vladarski.

The reportable remuneration of management in key positions of the Group includes the remuneration of the Executive Board and Supervisory Board.

5.4.1. RELATED ORGANIZATIONS

In addition to the subsidiaries included in the consolidated financial statements, the Group has direct or indirect relationships in the ordinary course of business with non-consolidated companies that are considered related parties of the Group. The non-inclusion of the non-consolidated companies into the consolidated financial statements has no substantial effect on the assets, financial and earnings position of operations of the Group.

5.4.2. RELATED PERSONS

Executive Board of RATH AG, Vienna

As per 31-DEC-2018, the Executive Board of RATH AG consisted of two members.

DI Jörg Sitzenfrey, born in 1976, has been responsible for Production and Research & Development as a member of the Executive Board since 01-JAN-2013 (initial appointment).

Andreas Pfneiszl, born in 1969, has been responsible for Sales and Finance as a member of the Executive Board since 10-JUN-2013 (initial appointment).

In the business year 2018, the Members of the Executive Board did not hold any Supervisory Board mandates or similar functions within domestic and foreign companies not incorporated in the consolidated financial statements. The Executive Board is also represented in the company management of RATH Filtration GmbH, Vienna. Both management contracts are valid until 31-DEC-2020.

Executive Board remunerations:

		2018 K€	2017 K€
DI Jörg Sitzenfrey	fixed	210	205
	Life insurance	10	10
	variable	90	86
		310	**301**
Andreas Pfneiszl	fixed	210	205
	Life insurance	10	10
	variable	90	86
		310	**301**
Grand total Executive Board remuneration		**620**	**602**

These and other business relationships with companies in which Supervisory Board members or members of the Executive Board of RATH AG are active are conducted at arm's length conditions and are of minor significance individually and in total. The remuneration of the Executive Board depends on the scope of functions and the responsibility and personal achievements by the Member, as well as on the achievement of company goals, size and economic situation of the company. At RATH AG, remunerations dependent on success are not granted via stock options but are dependent on varying success criteria. Part of this is a predefined target achievement regarding the company result and qualitative and quantitative goals.

Some parts of the total remuneration of the Executive Board in 2018 were fixed, others were success-dependent. The variable limit was set at a value of 50 % of the basic salary. The members of the Executive Board were granted entitlements to pension benefits in the form of a life insurance. In the event of premature termination of the employment relationships, the contributions paid up to this point in time become vested. Upon termination of his/her function and provided that his/her employment is terminated at the same time, a member of the Executive Board is entitled to a severance payment as defined in § 23 of the Angestelltengesetz (Austrian Salaried Employees Act), unless the termination is due to a justified dismissal. It should be noted here that the old severance payment entitlements were frozen as at 31-DEC-2002, and the entitlements increase further only as a result of salary adjustments and on 31-DEC-2018 amounted to k€ 28 (previous year: k€ 28). Former members received pension payments to the amount of k€ 200 (previous year: k€ 194). RATH AG has taken out D&O insurance for 2018. The costs of this insurance are borne by the organization. The D&O insurance covers certain personal liability risks of the responsible persons of the RATH Group. As in the previous year, the annual costs amount to k€ 15.

Supervisory Board of RATH AG, Vienna
Stefan Ehrlich-Adám (Chairman) since 25-JUN-2013
CPA Mag. Philipp Rath (Vice Chairman) since 17-JUL-2003
Mag. Dieter Hermann since 25-JUN-2013
Dr. Andreas Meier since 01-JUN-2016
Mag. Dr. Ulla Reisch since 28-MAY-2018

The expenses for the remunerations for members of the Supervisory Board during the business year amounted to k€ 70 (previous year: k€ 80).

5.5. AUDITING FEES

In the business year, the expenses for the Group auditor KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft amounted to a total of k€ 150 (previous year: k€ 57), of which k€ 45 (previous year: k€ 25) for the audit of the consolidated financial statements (including financial statements of individual affiliated companies).

5.6. EARNINGS PER SHARE

The basic undiluted result per share is calculated by dividing the proportion of consolidated net profit attributable to RATH AG shareholders by the weighted number of ordinary shares in circulation during the year.

	2018	2017
The proportion of corporate earnings attributable to parent company shareholders in k€	5,863	2,370
Weighted number of shares in circulation	1,500,000	1,500,000
Result per share in €	3.91	1.58
Dividend payout per share for the business year in €	0.75	0.75

The diluted result per share corresponds to the basic undiluted result per share, as no financial instruments with a diluting effect are in use.

6. EVENTS AFTER THE BALANCE SHEET DATE

No significant event of particular relevance to the RATH Group occurred after the balance sheet date.

These consolidated financial statements were prepared on 15-APR-2019 by the company's Executive Board and submitted to the Supervisory Board on 24-APR-2019 for review and approval.

The Executive Board

VIENNA, 24-APR-2019

Andreas Pfneiszl

DI Jörg Sitzenfrey

AUDITOR'S CERTIFICATE

AUDITOR'S CERTIFICATE

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion
We have audited the consolidated financial statements of Rath Aktiengesellschaft, Vienna, and its subsidiaries (hereinafter referred to as the "Group"), consisting of the consolidated balance sheet as per 31-DEC-2018, the consolidated income and loss statement, the consolidated comprehensive P&L account, the group cash flow statement and the development of the Group net equity for the business year ending on this reporting date and the explanatory notes to the consolidated financial statements.

According to our assessment, the consolidated financial statements conform to the legal provisions and provides a fair and true representation of the assets and financial position of the Group on 31-DEC-2018 as well as the profitability and the cash flows from the group for the business year ending on this reporting date in agreement with the International Financial Reporting Standards as they are applied in the EU (IFRS) and the additional requirements of § 245a of the UGB (Austrian Commercial Code).

BASIS FOR THE AUDIT OPINION

We conducted our audit in accordance with EU Regulation No. 537/2014 (hereinafter AP-VO) and generally accepted Austrian standards for the auditing of financial statements. These principles require application of the International Standards on Accounting (ISA). Our responsibilities under these provisions and standards are described further in the section of our Auditor's Certificate entitled "Responsibilities of the auditor for the auditing of consolidated financial statements". We are independent of the company in agreement with the provisions of Austrian corporate and professional law, and we have fulfilled our other professional obligations in agreement with these requirements. We believe that the documentary evidence we obtained for auditing is sufficient and appropriate to serve as a basis for our Audit Opinion.

PARTICULARLY IMPORTANT AUDIT CIRCUMSTANCES

Particularly important audit circumstances are such that were most important for our audit of the consolidated financial statements from the business year according to our best judgment. These circumstances were considered in connection with our audit of the consolidated financial statements as a whole and during the formation of our Audit Opinion, and we do not provide a separate opinion on these circumstances.

CAPITALIZATION OF DEFERRED TAXES ON LOSS CARRYFORWARDS

See explanatory notes to the consolidated financial statements Section 2.8.11. and Section 3, Note (12).

The risk for the statement
The valuation of active deferred taxes on loss carryforwards is dependent on significant estimates by the Executive Board regarding their future usage.

AUDITOR'S CERTIFICATE

From the loss carryforwards to the amount of k€ 9,999 on which deferred taxes were activated, k€ 6,464 or approximately 65 % of the loss carryforwards is attributed to Rath Inc., USA, and k€ 3,073 to Rath AG. The deferred taxes on loss carryforwards were capitalized based on the estimate by the Executive Board that sufficient taxable results will be available to Rath Inc and Rath Aktiengesellschaft against which the losses can be offset. This estimate is based on the profit forecasts by the Executive Board for Rath Inc. and Rath AG. No deferred taxes were capitalized on loss carryforwards to the amount of k€ 12,250.

Due to the significant estimate and the related uncertainties, these circumstances were classified as particularly important.

Our auditing procedure
We gained an understanding of the process of the preparation of the profit forecasts by the Executive Board and critically questioned the assumptions and estimates of the Executive Board underlying the profit forecasts. We also held conversations with the Executive Board and in particular analyzed the business development, the strategic orientation of RATH Inc and Rath Aktiengesellschaft, as well as the economic framework conditions. We evaluated the fulfillment of the planned calculations of the past by comparing the historic plans with the actual results.

We also made sure that the model from the planned calculations is applied consistently through all areas of the Group and in the reporting to the Supervisory Board. Furthermore, we assessed whether the required Annex Notes are appropriate in connection with the active deferred taxes from loss carryforwards according to IAS 12.

RESPONSIBILITIES OF THE LEGAL REPRESENTATIVES AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The legal representatives are responsible for the preparation of the consolidated financial statements and the same providing an accurate image of the assets, financial and earnings position of the Group in agreement with the IFRS as applicable in the EU and the additional requirements of the § 245a UGB (Austrian Commercial Code). Furthermore, the legal representatives are responsible for the internal controls that they consider necessary to enable preparation of consolidated financial statements free of significant – intended or unintended – misrepresentations.

During the preparation of the consolidated financial statements, the legal representatives are responsible for assessing the capability of the Group to continue its operations, to specify circumstances in connection with the continuation of their operations – if relevant –, and to apply the accounting principle of the continuation of operations; unless the legal representatives intend to either liquidate the Group or to stop their company activities or do not have any realistic alternatives to this.

The Audit Committee is responsible for monitoring the accounting process of the Group.

AUDITOR’S CERTIFICATE

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDITING OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our goals are to obtain sufficient certainty as to whether the consolidated financial statements as a whole are free of significant – intended or unintended – incorrect representations, and to provide an Auditor’s Certificate that expresses our Audit Opinion. Sufficient certainty is a high level of certainty, but not a guarantee that an audit executed in agreement with the AP-VO and the Austrian principles of proper auditing, which mandate application of the ISA, will always discover a significant misrepresentation if such exists. Incorrect representations may result from fraudulent acts or mistakes and are to be considered significant if it can be expected from them individually or altogether that they will influence the economic decisions of users made on the basis of these consolidated financial statements.

As a part of an audit in agreement with the AP-VO and the Austrian principles of proper auditing, which mandate application of the ISA, we exercise discretion according to our best judgment during the entire audit and maintain a critical approach.

Furthermore, the following applies:

- We identify and evaluate risks of significant – intended or unintended – misrepresentations in the statement, plan auditing measures as a response to these risks, execute them and obtain proof that is sufficient and suitable to serve as a basis for our Audit Opinion. The risk that significant misrepresentations resulting from fraudulent actions not being discovered is greater than a risk resulting from mistakes, because fraudulent actions may comprise fraudulent collaborations, falsifications, intended incompleteness, misleading representations or the bypassing of internal controls.

- We gain an understanding of the internal control system relevant for the audit in order to plan auditing actions that are appropriate under the specified circumstances, however not with the goal of submitting an Audit Opinion regarding the effectiveness of the company’s internal control system.

- We assess the appropriateness of the accounting methods applied by the legal representatives as well as the plausibility of the estimated values in the accounting presented by the legal representatives and related information.

- We draw conclusions about the appropriateness of the application of the accounting principles for the continuation of the company’s operations by the legal representatives as well as on the basis of the obtained audit records as to whether there is a significant discrepancy in connection with events or circumstances that may cause significant doubt in the ability of the company to continue its business activities. If we come to the conclusion that a significant uncertainty exists, we are obligated to make note of this in our Auditor’s Certificate for the relevant specifications in the consolidated financial statements or, if these specifications are inappropriate, to modify our Audit Opinion. We draw our conclusion on the basis of the documentary evidence that we have obtained up to the date of our Auditor's Certificate. Future events or circumstances may nevertheless result in the Group not being able to continue its operations.

- We evaluate the entire representation, the structure and the content of the consolidated financial statements including the specifications, and whether the consolidated financial statements represent the business transactions and events in a manner that provides a fair and true representation.

- We obtain sufficient suitable auditing records on financial information from the units or company activities within the Group to be able to provide an Audit Opinion on the consolidated financial statements. We are responsible for the instruction, monitoring and execution of the auditing of the consolidated financial statements. We bear the sole responsibility for our Audit Opinion.

- We talk to the Audit Committee about the planned scope and the planned time needed for the financial statement as well as about important findings, including any important deficiencies in the internal control system that we recognize during our audit.

- We also provide the Audit Committee with a statement that we complied with the relevant professional behavior requirements regarding independence, and we inform them of all relationships and other circumstances from which it can be reasonably assumed that they have an effect on our independence and – if relevant – any related protective measures.

- Starting from the issues that we have discussed with the Audit Committee, we determine which issues were most important for the audit of the consolidated financial statements for the business year and therefore are particularly important audit issues. We describe these issues in our Auditor's Certificate unless laws or other legal provisions rule out publication of the issues, or we determine in extremely rare cases that an issue should not be included in our Auditor's Certificate because it is reasonably expected that the negative consequences of such a notification would outweigh their advantages for the public interest.

OTHER LEGAL AND OTHER STATUTORY REQUIREMENTS

Report on the consolidated management report
Due to the provisions of Austrian corporate law, the consolidated management report must be audited to see whether it is in agreement with the consolidated financial statements and was prepared according to the applicable legal requirements.

The legal representatives are responsible for the creation of the consolidated management report in agreement with the provisions of Austrian corporate law.

AUDITOR'S CERTIFICATE

We have executed our audit in agreement with the professional principles for the auditing of the consolidated management report.

AUDIT OPINION

According to our assessment, the consolidated management report was created in compliance with the applicable legal requirements, comprises correct information according to § 243a of the UGB (Austrian Commercial Code), and is in agreement with the consolidated financial statements.

STATEMENT

In light of the knowledge and understanding of the company and its environment gained during the audit of the consolidated financial statements, we did not determine any significant misrepresentations in the consolidated management report.

Other information

The legal representatives are responsible for the further information. The further information comprises all the information in the annual report, not including the consolidated financial statements, the consolidated management report and the Auditor's Certificate regarding this.

Our Audit Opinion on the consolidated financial statements does not cover such further information, and we do not provide any type of guarantee about this.

In connection with our audit of the consolidated financial statements, it is our responsibility to read such other information and to consider whether there are any significant discrepancies between the further information and the consolidated financial statements or our knowledge gained during the audit, or whether such other information otherwise appears to be incorrectly represented in a significant manner. If, based on the work performed, we come to the conclusion that other information is misrepresented in a significant manner, we must report this. We have nothing to report in this respect.

Additional information pursuant to Article 10 of the AP-VO

We were elected as auditors by the General Meeting on 28-MAY-2018 and commissioned by the Supervisory Board on 24-SEP-2018 to audit the financial statements of the Company. We have been the Company's auditors without interruption since the consolidated financial statements of 31-DEC-2014.

We declare that the Audit Opinion in Section "Report on the consolidated financial statements" is consistent with the additional report to the Audit Committee pursuant to Article 11 of the AP-VO.

We declare that we have not performed any prohibited non-audit services (Article 5 I of the AP-VO), and that we have maintained our independence from the audited company in the performance of the audit.

AUDITOR'S CERTIFICATE

Auditor responsible for the order

The auditor responsible for the final audit is Mag. Yann-Georg Hansa.

Vienna, 24-APR-2019

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (audit and tax consultancy firm)

Mag. Yann-Georg Hansa
CPA

The consolidated financial statements with our Auditor's Certificate may be published or disclosed only with our approval. This Auditor's Certificate related only to the complete consolidated financial statements in the German language, including the consolidated management report. To any deviating versions, the regulations of § 281 II of the UGB (Austrian Commercial Code) apply.

GLOSSARY

Business Management Terms and Key Figures

ACTUARIAL PROFIT/LOSS	Current profit/loss
AVAILABLE FOR SALE	Available for sale
AVÖ	Aktuarvereinigung Österreichs (AVÖ, Actuarial Association of Austria); professional body of Austrian actuaries and actuarial experts. The AVÖ publishes the annuity valuation tables according to which the pension and severance payment liabilities are calculated.
CASH VALUE	The cash value corresponds to the value that a future series of payments has at the present time. In other words, it is the value of all payments at the beginning of the term (at point 0 in time).
CASH-GENERATING UNIT	Cash-generating unit
CORPORATE GOVERNANCE	Code of conduct for the responsible management and control of companies, recorded in the Austrian Corporate Governance Code. The content represents a voluntary body of rules and regulations.
DBO (DEFINED BENEFIT OBLIGATION)	Cash value of all forfeitable and vested entitlements earned on the basis of the estimated salary level upon reaching pension age. The sole actuarial procedure that may be used to calculate the DBO is the projected unit credit method. The DBO corresponds to the PBO (Projected Benefit Obligation).
DISAGIO	The difference between the issue and redemption amount of a liability.
D&O INSURANCE – "DIRECTORS' & OFFICERS' LIABILITY INSURANCE"	The D&O Insurance (also called directors' & officers' liability insurance or more generally: Financial losses liability insurance for organs of legal entities (stock corporations, cooperatives, associations, foundations, registered societies)) is usually concluded as insurance to the benefit of third parties. The company (policyholder) insures its organ members (Executive Boards, Managing Directors, Supervisory Boards, Advisory Boards) against the risk of personal liability in connection with actions of the Boards.
EBITDA	Earning before interest, tax and depreciations on tangible and intangible assets
EBITDA MARGIN	Relative share of the EBITDA in turnover
EBIT (EARNINGS BEFORE INTEREST AND TAX)	Earnings before interest and tax; operating result
EBIT MARGIN	Relative share of the EBIT in turnover
EBT (EARNINGS BEFORE TAX)	Pre-tax earnings
EQUITY RATIO	Equity divided by total capital
RETURN ON EQUITY	Profit divided by equity

GLOSSARY

FAIR VALUE	Valuation of financial instruments including derivative financial instruments at fair value
FVOCI	Fair Value Through Other Comprehensive Income: Financial instruments assessed at fair value and not affecting net income.
FVTPL	Fair Value Through Profit and Loss: Financial instruments assessed at fair value in the P&L account.
FINANCE LEASING	In finance leasing, the asset is surrendered against a defined leasing rate for a certain fixed lease term. During the fixed lease term, the agreement cannot be terminated. The lessee must bear the object-related risks, including the risks of destruction and theft.
IASB (INTERNATIONAL ACCOUNTING STANDARDS BOARD)	International board for the definition of accounting standards
IFRIC (INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEES)	International committee for the interpretation of accounting standards
IFRS (INTERNATIONAL FINANCIAL REPORTING STANDARDS)	International Accounting Standards (formerly IAS)
PUC (PROJECTED UNIT CREDIT METHOD)	Actuarial valuation method
ROCE (RETURN ON CAPITAL EMPLOYED)	Interest on the capital employed. Quotient of EBIT by Capital Employed
SENSITIVITY ANALYSIS	The sensitivity analysis is used to establish correlations between the input data of model calculations and the target values of alternatives .
WACC (WEIGHTED AVERAGE COST OF CAPITAL)	Weighted average cost of capital; refers to a procedure associated with the discounted cash-flow approach of company valuation. The weighted average cost of capital is used to determine the minimum return for investment projects.
WORKING CAPITAL RATIO	Reveals which portion of the current liabilities can be financed by the current assets. Inventories and receivables less contract liabilities and liabilities from goods and services are related to the turnover.
INTEREST SWAP	Agreement on the exchange of differently designed cash flows for a defined period. The cash flows are based on fixed and variable interest rates; for purposes of hedging against interest-rate changes.

DISCLAIMER

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THE MALE FORMS USED IN THE TEXT INCLUDE FEMALE PERSONS AS WELL. CONSISTENT DOUBLE DESIGNATION WAS WAIVED IN THE INTEREST OF BETTER LEGIBILITY.