DEUFOL
Packaging. Next level.

REMOVING LIMITS – WITH NEW STRATEGIES

Annual Report
2019

Overview of the Deufol Group

Figures in € million	2019	2018	± (%)
Results of operations			
Total sales	247.1	265.1	–6.8
Germany	152.4	158.0	–3.5
Rest of the World	94.7	107.1	–11.6
Ratio of foreign sales (%)	38.3	40.4	–5.2
EBITDA	28.2	18.8	50.0
EBIT(A)	6.2	9.8	–36.7
EBT	4.0	8.1	–50.6
Income tax income (expenses)	–0.9	–4.3	–79.1
Result for the period	3.1	3.8	–18.4
thereof noncontrolling interests	0.1	–0.3	133.3
thereof shareholders of the parent company	3.0	4.1	–26.8
Earnings per share – EPS (€)	0.070	0.095	–26.3
Assets structure			
Noncurrent assets	185.0	152.9	21.0
Current assets	84.4	80.6	4.7
Balance sheet total	269.4	233.5	15.4
Equity	114.5	113.6	0.8
Liabilities	154.9	119.9	29.2
Equity ratio (%)	42.5	48.6	–12.6
Net financial liabilities	68.5	34.1	100.9
Cash flow/investments			
Cash flow from operating activities	23.6	16.9	39.6
Cash flow from investing activities	–8.7	–0.8	987.5
Cash flow from financing activities	–13.1	–4.5	191.1
Investments in property. plant and equipment	53.7	7.9	579.7
Employees			
Employees (average)	2,185	2,347	–6.9
Personnel costs	90.5	98.3	–7.9

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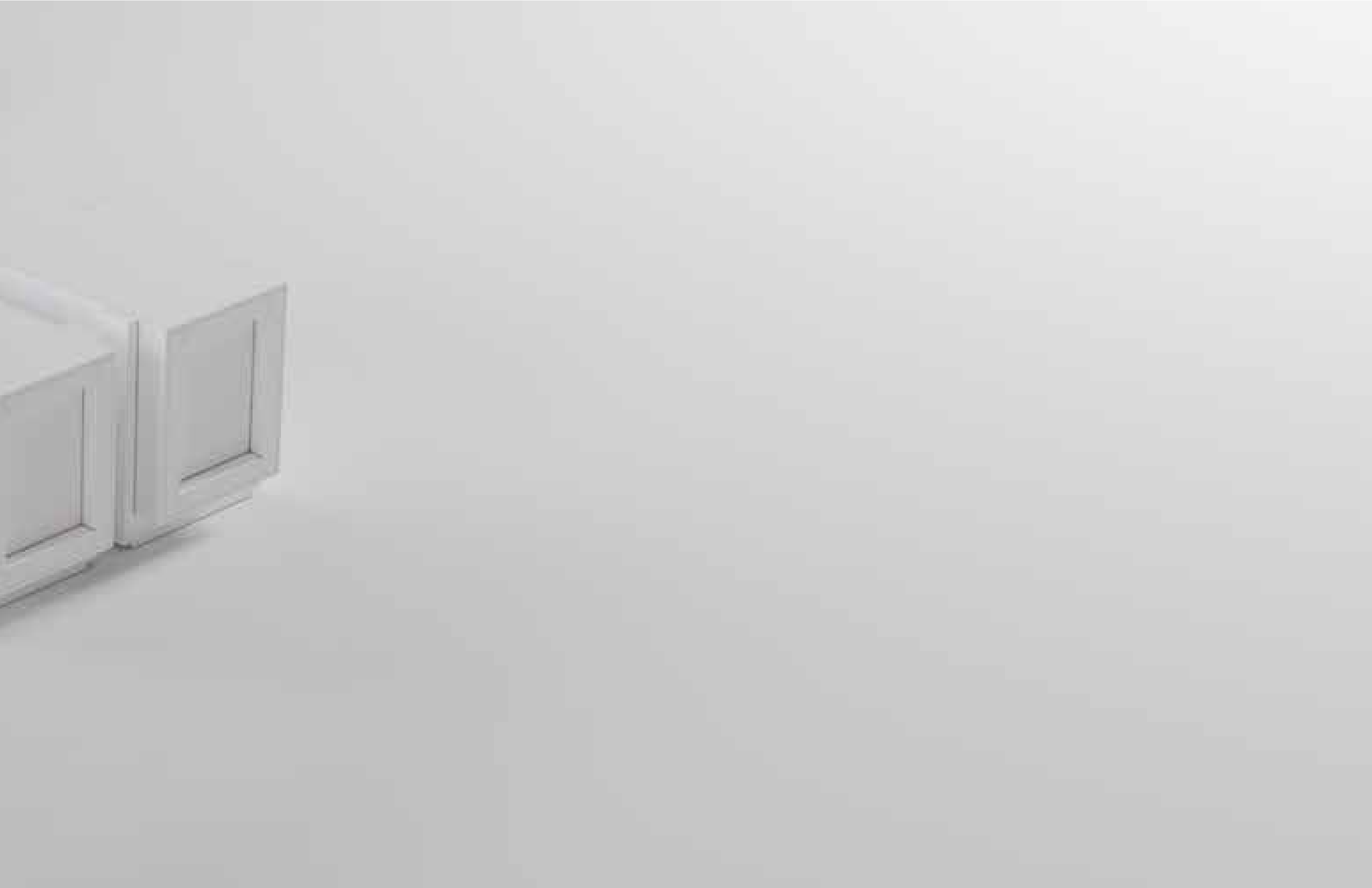


Custom-fit packaging for industrial goods

Annual Report 2019 | **Packaging and Logistics**

Unique products require individual packaging. Our expertise covers all of the available materials and options. We also offer specialist advice covering the full range of logistics issues: We analyze and optimize our customers' processes, enabling them to achieve time, materials and cost savings.

We concentrate on professional industrial and export goods packaging – our core competence. Here, we have been the market leader for some years now. As well as custom-fit packaging solutions, our offering also includes related services – such as storage.

At all times, we offer our customers an all-round service and help them to manage their logistics – from planning via management to implementation and control.

Planning, packaging, process – customized and optimized.

For further information, go to
www.deufol.com/en

Foreword by the Managing Directors

Fiscal Year 2019 – Embarking upon the Future with a New Strategy

Dear shareholders and business partners,
Dear colleagues,

The world is changing, and with it our customers' expectations in relation to our business activities. Yet despite all of this, our core competence remains the same: At Deufol, packaging and innovative logistics solutions are everything. We continuously adjust our products and services in line with new circumstances – and in particular in line with our customers' rapidly evolving needs. We are thus always a step ahead of current changes.

A Focus on Four Different Business Segments

For some years now, we have been working on sharpening our profile as a **globally active specialist covering the full range of services in the field of industrial packaging**. In order to focus even more strongly and to be able to react even faster, at the start of 2020 we will reorganize our business in terms of four new core segments: Packaging and Logistics, Production, IT Services and Real Estate.

Packaging and Logistics: This is our core competence. However, here too the environment in which we operate is changing. The share of business accounted for by industrial goods packaging has been increasing for a number of years now, while the share provided by consumer goods packaging is declining. For this reason, in the future we will concentrate on industrial goods for which we offer custom-fit packaging solutions and related services (such as storage).

Production: We produce crates, boxes, pallets and other packaging materials and also sell them. We thus systematically expand our core business. With our packaging solutions, we aim to set new standards, from their design to their manufacture, and thus to reduce costs.

IT Services: Over the past few years, alongside our traditional packaging and logistics activities we have gradually added a new digital mainstay. We provide support for our customers across their complex supply chains, in the form of helpful IT services and software tools.

Real Estate (Location Optimization): 92 locations, twelve countries, three continents – we are close to our customers, their processes and their products, worldwide. We intend to make optimal use of our locations and real estate and to standardize their management throughout our Group. We will also make flexible adjustments to our number of locations and their structure, where necessary. For instance, in case of project-driven business we will open new locations and may then close them again once the project has been completed.

"

In the future, we will be able to react faster, thanks to our focus on core segments."

Our focus on these four business segments is intended to deliver an even faster pace for our activities. In the future, the Deufol Group will thus be able to react flexibly from every point of view. Our long-term goal is **not merely to maintain our current market shares, but also to expand them.** With our strategy, we are now well prepared – even in view of the challenges posed by the "corona crisis".

2020: The Year Has Only Just Begun, and Already We Are in Crisis Mode

The coronavirus pandemic is having a serious impact on the entire world economy. The economic environment which was already strained has suffered a significant further deterioration due to the **lockdown of the German economy** imposed by the German government in order to contain the spread of the virus. The economic effects are currently difficult to estimate. On the one hand, no one knows how long the restrictions on business activities will remain in place for and how extensive they will be. On the other, it is unclear how quickly the economy will recover following the end of the crisis. It is also difficult to assess whether the government assistance packages currently provided will have the desired effect – and whether they will even be adequate.

The Kiel Institute for the World Economy (IfW) expects Germany's gross domestic product to fall by between 4.5 and 9 % in 2020. This is based upon **two different scenarios:** In the "V scenario", from May onwards the dampening measures will gradually be scaled back and the corona-related production outages will fade away within a period of six months. The "U scenario" envisages a recovery not beginning before August and output in the various sectors not returning to its pre-corona level until the start of 2021.

Due to these unfavorable outline conditions, in 2020 we anticipate **declining sales for the entire packaging and logistics market** – and thus also for the Deufol Group.

However, the Kiel Institute also provides grounds for optimism: To be sure, production processes were shut down more rapidly than was the case during the recession triggered by the global financial crisis ten years ago. **However, there is a decent prospect of exiting the output trough sooner.**

2019: Industrial Sector is in Recession

With regard to this Annual Report 2019, in the year under review we already faced an **extremely challenging economic environment**. While the German economy still grew by 0.5 % in 2019, large swathes of industry registered strong declines: Economic output in the manufacturing industry (excl. the construction sector) fell by 3.6 %. The signals provided by the world economy were scarcely any better. As an industrial and export-oriented economy, Germany was, and is, particularly strongly affected by this. **The Deufol Group is likewise dependent on exports and thus on the world economy.**

This challenging economic environment is also the main factor behind the decline in our Company's sales and earnings in the reporting year. In principle, at the turn of the year we had assumed that the duration of the economic downturn would be limited. However, in view of the corona pandemic it is unclear how things will now unfold.

As the Group's managing directors, at the present moment in time we can merely offer the following summary of the situation: The uncertain and extremely difficult economic environment will ultimately affect all market players – and not just the Deufol Group.

"

The uncertain economic environment will ultimately affect all market players."

A Leading Edge Thanks to Digitalization

However, the current crisis mode also shows that the strategic orientation which we have adopted is the right one. **The entire industrial packaging sector continues to offer considerable potential for Deufol.** Even though, the necessary close linkage with our customers' production processes does require a lead time and certain investments in order to be able to fully reap the benefits of the resulting success, **in the long term we will be able to utilize our competitive advantages.**

"

Our Group-wide IT landscape ensures compliance with quality standards."

What is more, since we **prioritized IT and digitalization as part of our business culture early on,** this strategy may now pay off twice over for the Deufol Group. For in the era of home-office working and restrictions on physical contact, we have largely been able to avoid any limitations of our business activities. That provides us with competitive advantages over less well-prepared market participants.

We have also **standardized our IT landscape throughout our Group** and systematically introduced IT systems at all of our locations. We thus ensure that we are able to guarantee uniform quality standards worldwide, despite our decentralized organizational structure. Thanks to our international locations, we have another advantage over market competitors which tend to operate at a local level.

In addition, we pursue a sustainable and future-oriented management strategy. The goal must be to reduce our resources and our energy consumption throughout our processes. For instance, we are working on **streamlining flows of goods by means of intelligent logistics.** We are also offering our customers standardization of (reusable) packaging in order to support them in their sustainability strategies.

Naturally, this strategy which we have developed must be "lived" in our day-to-day business. Here, we rely upon our **outstandingly trained employees.** For innovation and continuous change are only possible in tandem with them.

(From left to right) Detlef W. Hübner, Dennis Hübner, Jürgen Hillen, Jürgen Schmid




We would like to thank you from the bottom of our hearts for your consistently constructive and trusting cooperation. Stay healthy!

Yours sincerely,

The Managing Directors
Detlef W. Hübner, Dennis Hübner, Jürgen Hillen, Jürgen Schmid

Report of the Administrative Board

In the following report, the Administrative Board provides notice of its key activities in fiscal year 2019. Deufol SE is managed by its Administrative Board ("one-tier system"), which determines the basic profile of its activities and monitors their implementation by the managing directors. The key areas of the Administrative Board's management, supervisory and advisory activities, the audit of the annual and consolidated financial statements, relationships with associates and changes to the executive bodies are commented on below.

The Administrative Board has performed the duties assigned to it by law as well as the Articles of Association and the by-laws. It has managed the Company, determined the basic profile of its activities and monitored their implementation by the managing directors. The Administrative Board was directly involved in all decisions of fundamental importance for the Company. This is based in particular on a detailed catalog of transactions requiring the prior approval of the Administrative Board, which is contained in the by-laws for the managing directors.

During the reporting period, the managing directors informed the Administrative Board, both verbally and in writing, of all relevant issues concerning the Company's position and material business transactions. The Administrative Board received a monthly report consisting of a current income statement, balance sheet and cash flow statement for the Group as well as overviews of the development of sales, operating results and other indicators for the individual subsidiaries together with target/actual comparisons and corresponding prior-period figures. The Administrative Board regularly submitted questions to the managing directors on the basis of this data, which the managing directors then answered accordingly.

The Administrative Board regularly and promptly received the minutes of the meetings of the managing directors as well as up-to-date reports on trends not documented in special minutes. There was frequently a comprehensive exchange of opinions between the Administrative Board and the managing directors on these issues. In addition, the members of the Administrative Board maintain regular verbal and written contact with the managing directors.

Meetings of the Administrative Board

The Administrative Board considered the reports of the managing directors and other decision papers in a total of five meetings and also in frequent electronic and telephone conversations and discussed them in detail with the managing directors.

In 32 cases, resolutions were adopted outside meetings. These urgent decisions, that could not be delayed until a regular Administrative Board meeting, were preceded by an in-depth exchange of information by e-mail and telephone. At three out of the five meetings held one Administrative Board member excused himself from attending, while at a further meeting two Administrative Board members excused themselves. Otherwise, all of the members of the Administrative Board attended all of its meetings.

Key Topics of Discussion

In the period under review, Deufol's current sales and results of operations in its individual business segments were a strategic priority for the Administrative Board's discussions with the managing directors, with a particular focus on Deufol's business activities in Germany, Hungary, France and Italy as well as its future business development in these segments. In 2019, discussions focused on the expansion of our Industrial Packaging segment, the setup of our new plant in Hungary as well as our new syndicated financing arrangement. In addition, various M & A projects, our internal financing structure and human resources development were further topics discussed at our meetings.

As in previous years, the Administrative Board also discussed the action for damages against the Company's former Executive Board members Andreas Bargende and Tammo Fey as well as other former employees.

Audit of the Single-Entity and Consolidated Financial Statements

In accordance with the resolution passed by the Annual General Meeting on June 28, 2019 and the subsequent audit engagement issued by the Administrative Board, the annual financial statements for the fiscal year from January 1 to December 31, 2019 prepared by the managing directors in accordance with the German Commercial Code (HGB) and the management report of Deufol SE were audited by Votum AG, Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. The auditor issued an unqualified audit opinion.

The consolidated financial statements of Deufol SE were prepared in accordance with the International Financial Reporting Standards (IFRS) as stipulated by section 315 e of the German Commercial Code. The auditor issued the consolidated financial statements and the Group management report with an unqualified audit opinion.

All documents relating to the annual financial statements, including the management report and Group management report, the managing directors' proposal for the appropriation of net profit and the audit reports issued by the auditor, were presented to the Administrative Board. The Administrative Board examined these documents and discussed them in the presence of the auditors. The Administrative Board concurred with the results of the audit and, based on the results of its own examination, did not raise any objections. On April 27, 2020, the Administrative Board endorsed the annual financial statements of Deufol SE for 2019 and the consolidated financial statements. The annual financial statements have thus been approved. The Administrative Board also approved the managing directors' proposal for the appropriation of net profit.

The managing directors have also compiled a report regarding the Company's relationships with associates and presented this to the Administrative Board together with the audit report produced by the auditor. The auditor has issued the following audit opinion for the report:
"In accordance with our due audit and assessment, we confirm that
1. the factual information in the report is correct,
2. for the legal transactions stated in the report the Company's performance was not inappropriately high or disadvantages were balanced out,
3. in respect of the measures stated in the report, there are no factors suggesting an assessment significantly different from that of the managing directors."

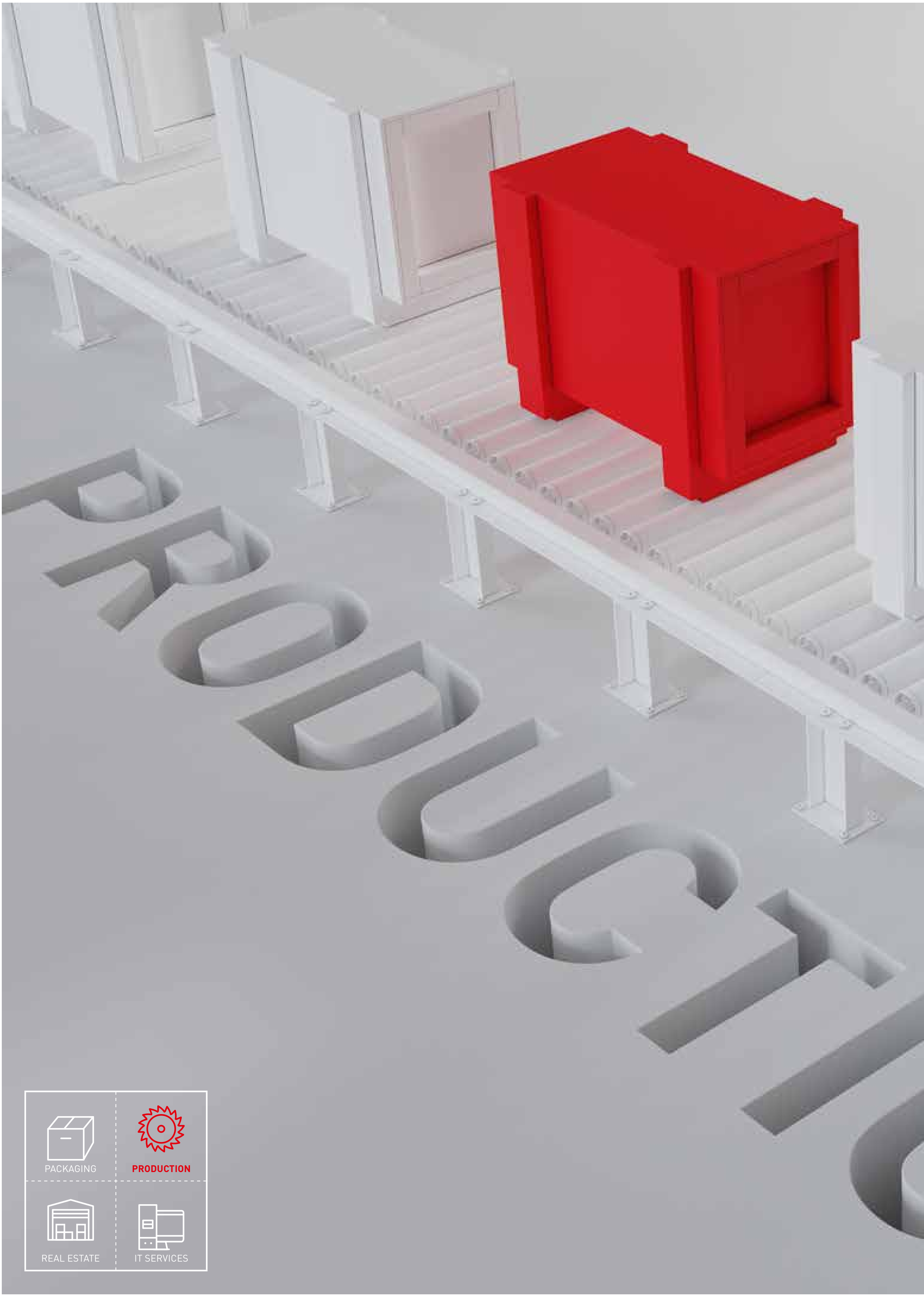
Within the framework of its own audits of the report regarding the Company's relationship with associates, the Administrative Board has determined that no objections are applicable and agrees with the auditors' findings.

Administrative Board

Pursuant to the resolution passed by the Annual General Meeting held on June 28, 2019, the Administrative Board was appointed for a two-year term. All of the current Administrative Board members were reappointed. The members of the Administrative Board subsequently elected Mr. Detlef W. Hübner as the chairman and Mr. Helmut Olivier as the deputy chairman of the Administrative Board. The by-laws of the Administrative Board remain applicable as before.

Hofheim, April 27, 2020

For the Administrative Board
Detlef W. Hübner
Chairman


PRODUCTI
PACKAGING
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REAL ESTATE
IT SERVICES

Design and production of packaging

We also draw upon the long-term know-how obtained through our core business for the manufacturing and distribution of packaging materials. Our experience covers a wide range of packaging designs, prototype construction and assembly as well as the automated production of packaging. From the design process via the materials used to manufacturing, we set new standards in order to lower costs and for increased sustainability.

To achieve this, we refine individual packaging solutions and transform them into standard packaging. We subsequently manufacture this packaging ourselves: We produce standardized crates, boxes, pallets or bottoms at our modern production plants and use these for our customers as well as selling them to third parties.

Ultimately, we thus pursue two different objectives: seamless processes as well as reduced unit and process costs.

We set standards in packaging.
And keep the costs down for our customers.

For further information, go to
www.deufol.com/en

Operational Principles of the Group

Organizational Structure and Business Fields

Structure of the Deufol Group

The Deufol Group (together with its key subsidiaries and investments) is a global premium service provider in the field of packaging and related services. Deufol SE is the Group's parent company and is seated in Hofheim am Taunus. It has direct or indirect interests in key Group companies which handle operating business in the individual countries. Overall, on the balance sheet date 46 direct and indirect subsidiaries were included in the consolidated group of Deufol SE. Of these companies, 17 were German companies while 29 were domiciled in other countries. Please see the "Facts & Figures" chapter on page ▶ 112 for a summary of our operationally active investments and their corporate structure.

Organization and Management

Deufol SE operates as a European company (Societas Europaea, SE). Deufol SE has a one-tier management system and its Administrative Board acts as a uniform management body. The Company's managing directors handle its business in accordance with prevailing law, the Articles of Association, the by-laws for the managing directors and the guidance of the Administrative Board, by fulfilling the basic tasks and instructions specified by the Administrative Board.

As a management holding company, Deufol SE does not have any client business and instead mainly handles management and control tasks. These include defining and developing strategic business fields, acquiring strategic customers and partners, appointments to management positions and control of the flow of capital within the Group.

The managing directors and site managers are responsible for on-site management of operational processes, with due consideration of regional specifics. Management is in the form of annual budget planning, individual target agreements in line with the Company's strategic orientation as well as regular meetings and monthly reviews. In addition, internal corporate governance guidelines specify consent requirements for specific types of transactions, e.g. investment schemes exceeding a specific volume.

As a global premium service provider, in general we offer our services at all of our locations and benefit from extensive international experience. Up to the end of 2019, we divided up our expertise into the following three service areas:

- Export & Industrial Packaging
- Automated Packaging and Promotional & Display Packaging
- Supplementary Services

Export & Industrial Packaging

The Export & Industrial Packaging service group mainly comprises packaging activities for manufacturers in the mechanical and plant engineering sector. This includes computer-based construction of packaging, individual and serial crate production, export packaging logistics, sea freight, air freight and hazardous goods packaging as well as the management of major industrial projects. Our proprietary IT solutions, our high-quality CAD crate design and our software support system for management of separate parts within the scope of the packaging process are key factors in our success. In our Export & Industrial Packaging business field, we also provide further industrial services such as disassembly and assembly services, on-site management and spare parts warehousing, including the necessary IT solutions.

Automated Packaging and Promotional & Display Packaging

Our Automated Packaging and Promotional & Display Packaging services comprise consumer goods packaging services. They include the entire spectrum from fully automated packaging of bulk commodities using high-tech machinery to manual stocking of exceptionally eye-catching displays. We offer integrated services and provide support services for the packaging process such as labeling, repackaging, distribution logistics and transport and document management.

Supplementary Services

This comprises services such as warehouse planning and management, handling small volumes and samples, commissioning, contract and spare parts logistics and value-added services.

Business Development and Operational Responsibility

Business Development comprises all activities associated with the development of our existing business operations globally and at all of our locations. Besides operational responsibility for ensuring the smooth handling of day-to-day business, the site managers are responsible for maintaining and developing local customer relationships as well as developing new ones. Each site manager works hand in hand with Business Development. Interdisciplinary teams of experts are thus able to handle, in particular, major and even international tenders – in a targeted manner which focuses on the benefits for the customer.

Locations of the Deufol Group

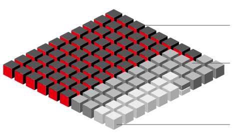
Globally Positioned with Locations in Twelve Countries

In connection with the business activities of the Deufol Group, the terms “location” and “sales market” are more or less synonymous. As a service provider, we mainly provide our services on a customer- and project-specific basis; as a rule, sales occur where the service is provided.

In Germany, as of December 31, 2019 we had 42 locations which account for a total of 61.6 % of Group sales. The Rest of Europe – which accounts for around 24.5 % of the Group’s business – comprises 33 operational facilities in Belgium, France, Italy, Austria, the Czech Republic, Slovakia and Hungary. We also offer our services in the Netherlands, thanks to a partnership.

Sales by region

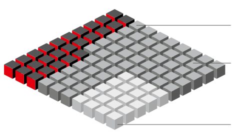
Figures in € million



152.4	Germany
60.4	Rest of Europe
34.3	USA/ Rest of the World

Assets by region

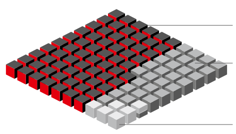
Figures in € million



68.3	Germany
147.7	Rest of Europe
53.4	USA/ Rest of the World

Employees by region

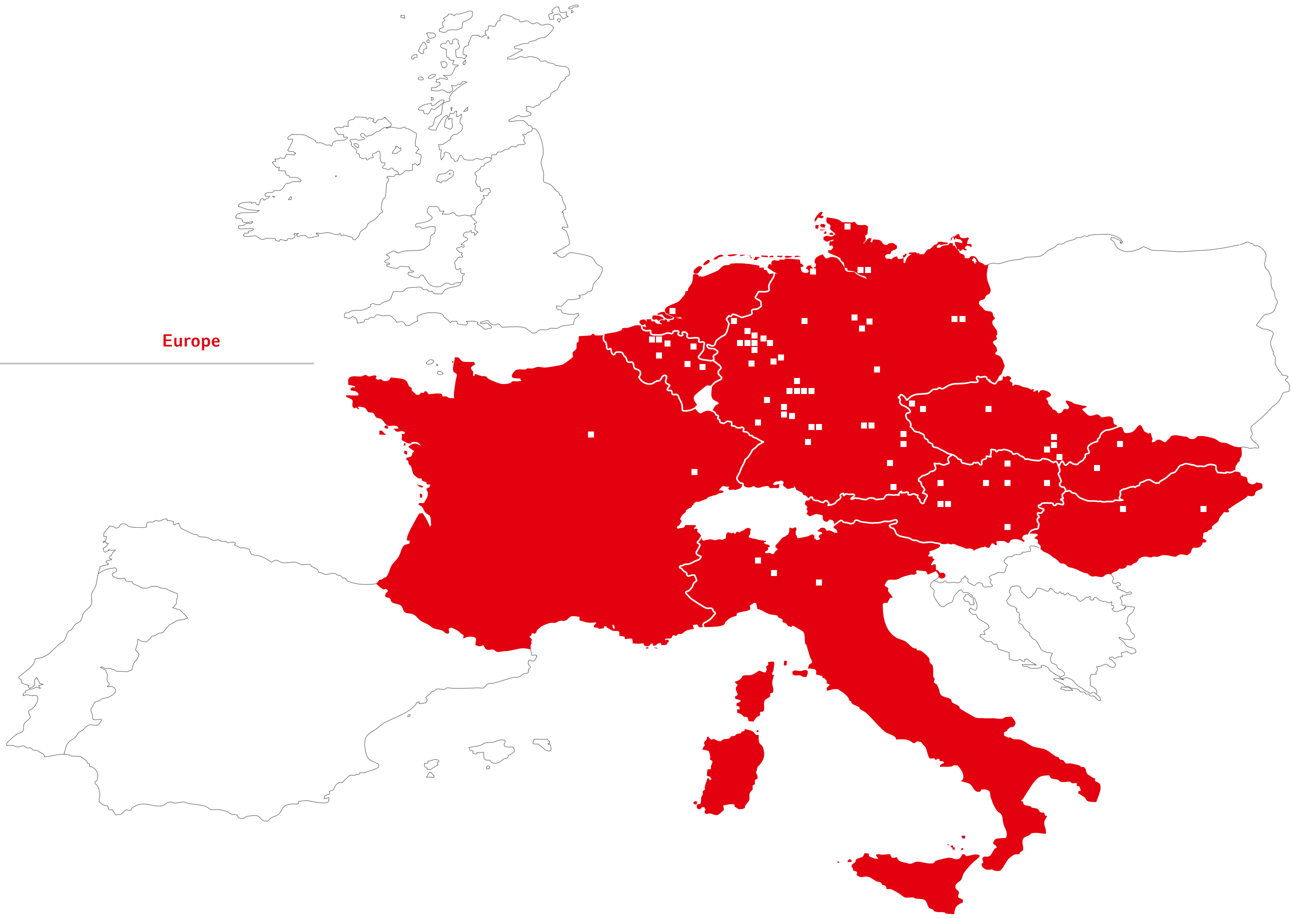
Deufol Group



1,415	Germany
647	Rest of Europe
123	USA/ Rest of the World

We have a total of nine locations in the USA / Rest of the World, which contribute approx. 13.9 % of sales. As well as our main location in Sunman, our business in the USA is also handled through a further four packaging locations. We have four locations in Asia. Overall, we have three locations in the People's Republic of China: Besides our existing locations in Suzhou and Baoshan we have a further location in Yantai which we operate together with a joint venture partner. We also have a plant in Singapore. The Deufol Group's geographical presence is shown in the following diagram.

Europe



Number of locations

Germany	42
Rest of Europe	33
USA/ Rest of the World	9

Region-Oriented Segment Structure Notes 39, 40

The management and reporting structure of Deufol SE is based on the following geographical regions which are summarized for management purposes:

- Germany
- Rest of Europe
- USA / Rest of the World

Competitive Situation

High Level of Customer Loyalty, Varying Levels of Competition

The Deufol Group provides its services in a range of different competitive scenarios through its presence in various regions. In 2019, Export & Industrial Packaging once again maintained a strong market position in Germany and in Europe. This is a fragmented market, and as one of the key players Deufol is able to exploit economies of scale.

The orientation of the Automated Packaging business field is mainly product-specific and in accordance with customer relationships. Due to the frequently strong level of integration with customers, this sector is only subject to limited competition. However, high volumes of investment are required in line with customer specifications, thus limiting the room for maneuver. Competition is stronger in Promotional & Display Packaging due to the high volume of manual work.

For our Supplementary Services – particularly warehouse logistics – the intensity of competition varies since in-house outsourcing divisions are generally subject to a lower degree of competition due to their close relationship with customers. Where warehouse logistics is provided in so-called “multi-user structures”, i.e. with multiple customers at a single warehouse, the Deufol Group does business in a highly competitive environment. Successful future performance here hinges on providing customer-specific additional services.

Research and Development

No Conventional Research Expenditure

A service provider such as the Deufol Group does not have any conventional R & D expenditure. Instead, we constantly develop new products, innovative services and IT solutions for increased process efficiency, while preparing new projects or through close cooperation with our customers. For instance, in previous years we successfully introduced to the market our new standard pallet and standard crate system “Deufol ConPal / ConBox”. This system provides our customers with increased flexibility and a faster supply system. Another area where we have been pursuing the ongoing development of our service and product portfolio for some years now relates to the packaging materials used. For increased sustainability, thanks to multiple use of packaging components, and in order to reduce the frequency of pest infestation in wood packaging, we are developing new packaging designs based on modern composite materials with an increased non-wood proportion. At the same time, we are optimizing our production processes so that in the future we will require fewer resources in order to manufacture these new packaging designs.

Report on the Economic Environment

Economic Outline Conditions

World Economy Suffers Further Loss of Momentum

In the view of the Kiel Institute for the World Economy (IfW), while world economic growth continued in 2019, the pace of growth registered a further decline in the year under review by comparison with the previous year. In particular, the industrial sector which is important for Deufol is experiencing a downturn. Since early 2019, world trade has even generally declined (−0.4 % on the previous year).

Economic sentiment has significantly deteriorated almost everywhere. The trade conflicts triggered by the United States as well as the uncertainty over the economic effects of governance by populist governments in a series of emerging markets are depressing sentiment. For 2019 as a whole, global output increased by just 3.0 %. This is the weakest rate since the great recession in 2009 and 0.4 percentage points lower than the Kiel Institute had predicted a year ago. The weak position of industry and world trade is continuing to have a strong impact. From the turn of the year 2017/2018 onwards, growth in both of these areas increasingly lost momentum and came to a standstill completely during 2019. In the advanced economies, industrial production even contracted.

The gaps in terms of the various countries' economic momentum generally increased in 2019. In the advanced economies, the pace of growth clearly slowed. However, the picture here is not a uniform one. While the United States are continuing to report solid growth, output growth has almost ground to a halt in the Eurozone and is actually declining in the United Kingdom. The emerging market economies are continuing to grow at a moderate pace and were in very robust form in 2019. Unlike Argentina, Turkey has now put the 2018 crisis behind it. In China, the pace of expansion declined slightly but growth rates remained solid.

Moderate Pace of Growth in the Eurozone

Economic output growth was only moderate in the Eurozone, while the pace of growth was stronger in the rest of the Eurozone than in Germany. Industry is likewise in recession in the Eurozone, while activities in the other economic sectors maintained an upward trajectory. As well as Germany as an industrial heavyweight, Italy and the Netherlands in particular were affected by a recession in their industrial sectors in 2019. In France and the other countries of the Eurozone where manufacturing industry plays a less important role for the overall economy, the production figures were roughly stable.

The lack of momentum provided by the export segment since early 2018 – which was previously a mainstay of the economy – is a key aspect of the weakness of industry. Overall economic output increased by just 1.2 %, compared to growth of 1.8 % in the previous year. Financing terms remain favorable thanks to the expansionary monetary policy stance. It is not currently possible to foresee any change in this strategy. Concerns over Italy's debt sustainability, the delay in the implementation of reforms in France and, not least, the future relationship between the EU and the United Kingdom after Brexit already had a negative impact in the year under review and may also result in a weaker than anticipated future economic trend.

To date, the decline in unemployment has hardly slowed. In terms of the European average level, it is only slightly higher than the all-time low reached in the spring of 2007. However, this decline is expected to level off due to the weaker economic momentum.

As outlined above, the economies of several Eurozone member states suffered due to weak exports. As well as Germany, these countries include Italy in particular. On the other hand, output growth remained strong in some central and eastern European countries.

German Economy on Downward Spiral

According to the Kiel Institute for the World Economy, in 2019 the German economy was already on the edge of recession. The economic trend is characterized by a bifurcating pattern. The significant decline in industrial output is the key factor behind the continuing downturn which already began in 2018. German industry is now even officially in recession. The high level of economic uncertainty has had a particularly negative effect on the German economy, which specializes in the production of investment goods. On the other hand, the consumer-related services sectors which are less important for Deufol are continuing to grow. Overall in 2019, gross domestic product increased by just 0.5 %, compared to 2.5 % and 1.5 % in 2017 and in 2018. In the year under review, the high level of global political uncertainty resulting from the ongoing trade conflicts not only had an especially negative impact on production and exports but also significantly affected German corporate investments. These fell significantly due to the pessimistic sales outlook in 2019.

Over the course of the year, the volume of capacity utilization in industry fell below the normal level of utilization. This strong decrease is notable following years of over-utilization and a high level of economic activity. The weak state of the economy is clearly also having an impact on the labor market. The number of unemployed is no longer falling, and the employment growth trend which has been apparent for a number of years has unexpectedly suffered a clear slowdown. At the same time, however, private disposable incomes have continued to rise. This reflects the continuing very strong wage increases as a result of the labor shortage. The large number of fiscal measures which are supporting private incomes are an additional factor.

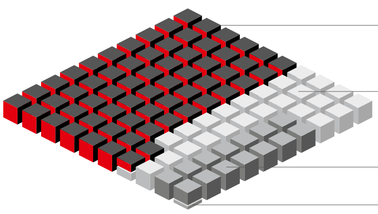
Results of Operations

Decline in Sales Notes 01, 40, 41

In an overall economic environment as outlined above, which was shaped by a global recession in industry alongside political uncertainty, sales amounted to € 247.1 million in the period under review and fell by 6.8 % (previous year: € 265.1 million). The Consumer Goods Packaging business segment remains the key factor behind the decline in sales. The business relationship with a major customer in this segment suffered a strong decline and ended entirely in late September.

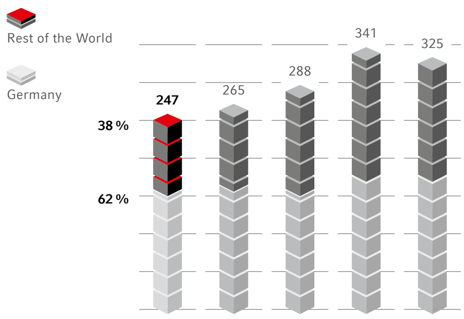
We have thus failed to achieve our planning targets published in our Annual Financial Report 2018, which had envisaged sales in a range of between € 270 million and € 290 million. In our Semi-Annual Report 2019, we had already announced that our original planning was overly ambitious in view of the challenging economic environment and had predicted that we would fail to match our targets. These challenges became even more pronounced during the second half of the year.

Consolidated sales by segment



Figures in € million		2019	2018
61.6 %	Germany	152.1	157.8
24.5 %	Rest of Europe	60.4	65.2
13.8 %	USA / Rest of the World	34.3	41.9
0.1 %	Holding	0.3	0.2
100.0 %	Total	**247.1**	265.1

Sales



No significant changes have resulted in the scope of consolidation from the point of view of sales in the reporting year. If one adjusts for the appreciation of the US dollar against the euro by an average of around 5.2 %, which resulted in a € 1.7 million rise in sales, in adjusted terms sales have declined by 7.5 %. Our overall operating performance amounted to € 260.9 million (previous year: € 283.0 million).

Germany Maintains Growing Importance for Deufol's Business Note 40

In the past year, Germany reinforced its role as the Deufol Group's most important sales market. With a sales volume of € 152.1 million (previous year: € 157.8 million) in the past fiscal year, it contributed 61.6 % (previous year: 59.5 %) to Group sales.

The Rest of Europe segment provided 24.5 % (previous year: 24.6 %) of Group sales, with a sales volume of € 60.4 million (previous year: € 65.2 million) in the reporting period. The absolute decline in sales in this segment resulted from one-off business with a major customer in the previous year.

Consolidated sales by services

Figures in € million	2019	2018
Export & Industrial Packaging	201.2	206.0
Share (%)	81.4	77.7
Consumer & Data Packaging	33.8	40.6
Share (%)	13.7	15.3
Supplementary Services	11.8	18.3
Share (%)	4.8	6.9
Holding	0.3	0.2
Share (%)	0.1	0.1
Total	**247.1**	265.1

In the USA / Rest of the World segment, sales fell to € 34.3 million (previous year: € 41.9 million). This means that this segment now represents around 13.9 % (previous year: 15.8 %) of Group activities. This decrease has resulted from the end of a business relationship with a major customer in the Consumer Goods Packaging segment as well as the implementation of our strategy focusing on Industrial Packaging.

Export & Industrial Packaging Achieves Further Increase in Share of Sales

Note 41

With a share of sales of approx. 81.4 % (previous year: 77.7 %), Export & Industrial Packaging is by far the Group's most important business segment. Sales realized in Consumer Packaging decreased significantly, from 15.3 % to 13.7 %. The contribution provided by Supplementary Services also declined, from 6.9 % to 4.8 %.

Cost development

Figures in € million	2019	2018
Cost of materials	99.3	107.4
as % of overall operating performance	38.1	38.0
Personnel costs	90.5	98.3
as % of overall operating performance	34.7	34.8
Depreciation, amortization and impairment	22.0	9.0
as % of overall operating performance	8.4	3.2
Other operating expenses	42.9	58.4
as % of overall operating performance	16.4	20.6
Total	254.7	273.2
as % of overall operating performance	97.6	96.5

Operating Costs Ratio Higher on Balance

Notes 02 – 05

At 38.1 % (previous year: 38.0 %), the ratio of the cost of materials to Deufol's overall operating performance increased slightly. The share accounted for by raw materials, consumables and supplies and purchased merchandise has decreased by 1.2 percentage points to 21.5 % (previous year: 22.7 %), while the share of purchased services has increased from 15.2 % in the previous year to 16.6 %. These changes are due to relatively stable prices of raw materials on average over the course of the year. There was therefore less of a time lag in terms of prices being passed on to our end customers, and the use of temporary workers and subcontractors increased slightly. However, overall the cost of materials is within the range seen in the past few years.

At € 90.5 million, personnel costs were significantly lower than the previous year's figure of € 98.3 million and amounted to 34.7 % of Deufol's overall operating performance, thus matching the previous year's level. The significant decline in personnel costs in absolute terms is mainly attributable to the sales-related decrease in the average number of employees. However, we remain committed to the goal of covering key areas of expertise in-house. In the past fiscal year, the Deufol Group had 2,185 employees (previous year: 2,347).

At € 22.0 million, the depreciation, amortization and impairment figure is significantly higher than the previous year's figure of € 9.0 million. This item does not include any impairment (previous year: € 0.9 million). This increase has mainly resulted due to the change in the balance-sheet treatment of leased assets (IFRS 16).

The total volume of other operating expenses has declined significantly (– € 15.5 million to € 42.9 million). Here too, this significant change reflects the new accounting rules for leasing, which resulted in a € 15.0 million decrease in other operating expenses. Adjusted for this effect, other operating expenses declined by € 0.5 million and at 22.2 % they are slightly higher than the previous year's level of 20.6 %. This is mainly due to the significant decline in sales in the year under review, which meant that it was not possible to cut back on some expenses at the same pace, due to their character as fixed costs.

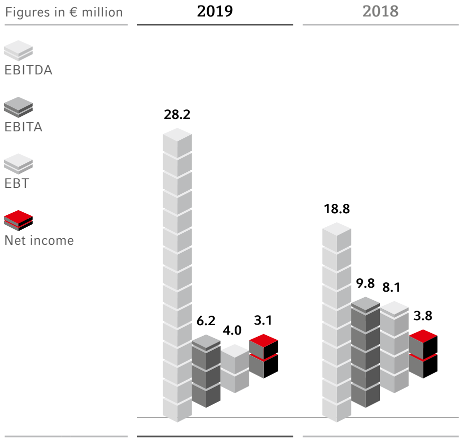
Overall, the costs ratio has increased to 97.6 % (previous year: 96.5 %) of Deufol's overall operating performance. This corresponds to a decrease in the EBITA margin from 3.5 % to 2.4 %.

Operating Result

Earnings before interest, taxes, depreciation and amortization (EBITDA) were € 28.2 million, compared to € 18.8 million in the previous year. The EBITDA margin was 10.8 % (previous year: 6.7 %). At € 20.0 million, depreciation of property, plant and equipment was significantly higher than in the previous year (€ 6.1 million). However, adjusted for the one-off effect for leased assets (€ 15.0 million), the volume of depreciation has declined year-on-year. Amortization of other intangible assets decreased significantly, to € 2.0 million (previous year: € 2.9 million). However, in the previous year impairment accounted for € 0.9 million of this amount (not applicable in the year under review).

The operating result before goodwill amortization (EBITA) amounted to € 6.2 million in the reporting period (previous year: € 9.8 million). The EBITA margin amounted to 2.4 % in 2019 (previous year: 3.5 %).

Income development



Financial Result Note 06

The negative financial result increased from – € 1.7 million to – € 2.2 million. Financial income increased to € 0.7 million, compared to € 0.3 million in the previous year. This resulted due to a significant increase in interest income (from € 0.1 million to € 0.6 million) from time deposits invested over the course of the year. The profit from investments included in the financial result amounted to € 0.1 million (previous year: € 0.2 million). The revised accounting rules for leased assets resulted in higher financial liabilities, which in turn increased finance costs by € 0.7 million. Finance costs total € 2.9 million, compared to € 2.0 million in the previous year. As well as the expenses reported here for the first time due to the changed accounting rules, this increase has mainly resulted from the financing costs for the investment project in Hungary, while at the same time debit interest rates have decreased.

Net Income Notes 07–09

Earnings before taxes (EBT) in the past year were € 4.0 million (previous year: € 8.1 million). Overall tax expenditure in the past fiscal year amounted to € 0.9 million, compared to € 4.3 million in the previous year. Current tax expenditure for taxes on income decreased due to the significantly lower pretax earnings and amounted to approx. € 0.4 million (previous year: € 1.9 million). The Company recognized expenses in the amount of € 0.5 million (previous year: € 2.4 million) for deferred taxes. The high volume of deferred tax expenses in the previous year is attributable, in particular, to the remeasurement of investment property as well as valuation adjustments on capitalized loss carryforwards within the scope of the Company's focus on its Industrial Packaging business.

This means a result for the period of € 3.1 million (previous year: € 3.8 million). The share for noncontrolling interests is + € 0.1 million (previous year: – € 0.3 million).

Earnings attributable to the shareholders of Deufol SE amounted to € 3.0 million in the period under review, compared to € 4.0 million in the same period in the previous year. Earnings per share were € 0.070 in 2019 (previous year: € 0.094).

Margin development

Figures as % of sales	2019	2018
EBITDA margin	10.8	6.7
EBIT(A) margin	2.4	3.5
EBT margin	1.5	2.9
Net income margin	1.2	1.3

Comprehensive Income

Comprehensive income after taxes was € 3.6 million in the past year (previous year: € 4.2 million). The change by comparison with the previous year is due to the lower result for the period. The gains from currency translation directly offset against equity amounted to € 0.4 million (previous year: € 0.8 million).

Financial Position

Financing of the Deufol Group Notes 25, 38

Various financing groups exist within the Deufol Group. In Germany and Europe, as of late 2019 Deufol has a variable-interest syndicated financing arrangement with a volume of € 42 million and a term ending in May 2024. For this financing arrangement, in 2018 the Group commenced negotiations over the extension and expansion of its lines of credit. These negotiations were successfully completed in May 2019. Within the scope of this financing arrangement, the loan agreement prescribes specific financial covenants which the Deufol Group is required to fulfill during the term of the agreement. Further significant financing groups exist in the USA, Belgium, Austria, in the Czech Republic and in Italy (mainly amortizing loans for real estate, operating credit lines and/or factoring). In 2020, a financing group in Hungary is to be added.

Credit lines of € 39.4 million are available to the Group at various banks (previous year: € 48.4 million). As of December 31, 2019, € 33.0 million (previous year: € 36.0 million) of this had been utilized. The variable-interest loans shown in the balance sheet are subject to standard market interest rate risks. In fiscal year 2019, the average weighted interest rate for short-term loans was 2.32 % (previous year: 2.28 %). The payable credit margins are partially dependent on complying with certain financial ratios (covenants).

In the opinion of the managing directors, the Deufol Group's financial resources are sufficient to meet payment obligations at any time.

Financial liabilities

Figures in € million	2019	2018
Amounts due to banks	67.7	60.0
thereof current	21.9	45.2
thereof noncurrent	45.8	14.8
Finance leasing	32.6	3.5
Other	0.3	0.3
Total	**100.6**	**63.8**

Development of Financial Indebtedness Notes 18, 25

The financial liabilities of the Deufol Group substantially changed in the past fiscal year. They amounted to € 100.6 million (previous year: € 63.8 million) as of the reporting date. On the one hand, this significant increase is associated with the new accounting rules for reporting of leased assets. Since the year under review, leased assets must be reported as fixed assets. At the same time, the corresponding financial liabilities must be reported on the liabilities side. This effect resulted in a € 29.0 million increase in financial liabilities as of the reporting date. Financial liabilities adjusted for this effect thus amount to € 70.8 million. On the other hand, the remainder of the increase by comparison with the previous year has mainly resulted due to the construction and financing of our new plant in Hungary (€ 9.4 million).

Net financial liabilities – defined as total financial liabilities less financial receivables and cash – increased significantly, by € 34.4 million from € 34.1 million on December 31, 2018 to € 68.5 million at the end of the period under review. This was despite the increase in cash held (+ € 2.1 million) and financial receivables (+ € 0.1 million). This chiefly reflects the new leasing accounting rules. The balance of liabilities to banks and call deposits at banks is – € 36.1 million, compared to – € 30.6 million in the previous year. This increase is independent of the new leasing rules and has instead resulted from the financing of our new plant in Hungary. Net financial liabilities have otherwise decreased.

Investments Higher Than in Previous Year Notes 10–13

In the past fiscal year, at € 10.6 million the volume of investment significantly exceeded the previous year's level of € 8.9 million. There were no additions in connection with companies included in the scope of consolidation for the first time in either 2019 or the previous year. Of the investments made in the past fiscal year, € 7.5 million relates to our new plant in Hungary.

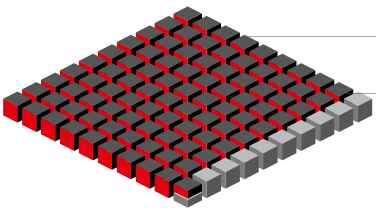
Due to the restructuring of the Group's real-estate holdings, since 2018 real estate has been reported in the balance sheet item "Investment property". A property exclusively used by a major customer for its production operations was reported at its current fair value. Its fair value has increased by € 2.9 million by comparison with the previous year. On the other hand, fixed assets have increased by € 29.1 million due to the change in the accounting rules for leased assets.

In the past fiscal year, investments in property, plant and equipment amounted to € 9.6 million (previous year: € 7.9 million). The investment ratio – i.e. the ratio of capital expenditure to sales – was 3.9 % in 2019 (previous year: 3.0 %). With its increased volume of investment, Deufol is preparing for a shift in the production of industrial goods to southeastern Europe and is therefore investing, in particular, in the development of a new location in Hungary.

Advance payments made and assets under construction (€ 6.5 million) are the largest capital expenditure item. This is followed by land and buildings (€ 1.7 million) and operating and office equipment (€ 0.9 million).

Investments

Figures in € million



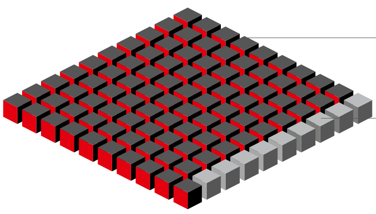
		2019	2018
90.6 %	Property, plant and equipment	9.6	7.9
9.4 %	Intangible assets	1.0	0.8
0.0 %	Investment property	0.0	0.2
100.0 %	Total	**10.6**	8.9

Investments by segment

Figures in € million	2019	2018
Germany	0.8	1.3
Rest of Europe	8.5	6.3
USA/Rest of the World	0.3	0.2
Holding	1.0	1.1
Total	**10.6**	8.9

Depreciation, amortization and impairment

Figures in € million



		2019	2018
90.9 %	Property, plant and equipment	20.0	6.1
9.1 %	Intangible assets	2.0	2.9
100.0 %	Total	**22.0**	9.0

Depreciation, amortization and impairment by segment

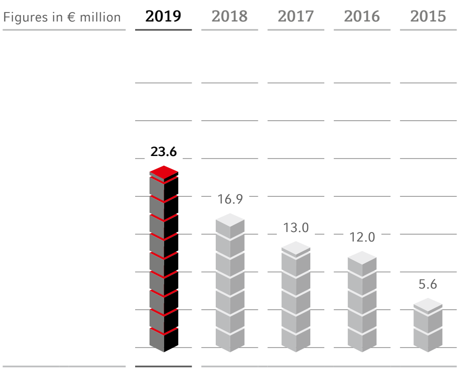
Figures in € million	2019	2018
Germany	11.5	2.5
Rest of Europe	6.6	4.1
USA/Rest of the World	2.0	1.3
Holding	1.9	1.2
Total	**22.0**	9.0

Depreciation, Amortization and Impairment Significantly Higher Than in Previous Year

Notes 11, 12

Depreciation of property, plant and equipment and amortization of intangible assets increased strongly by comparison with the previous year (€ 22.0 million, compared to € 9.0 million in the previous year). Depreciation of property, plant and equipment amounted to € 20.0 million, compared to € 6.1 million in the previous year. Of this amount, € 15.0 million relates to the depreciation of leased assets which were reported under property, plant and equipment for the first time in the reporting year (IFRS 16). Without this one-off effect, the depreciation figure would have been slightly lower than the previous year's level. Amortization of other intangible assets amounted to € 2.0 million (previous year: € 2.9 million). In the previous year, impairment in the amount of € 0.9 million was recognized on intangible assets.

Cash flow from operating activities



Cash Flow

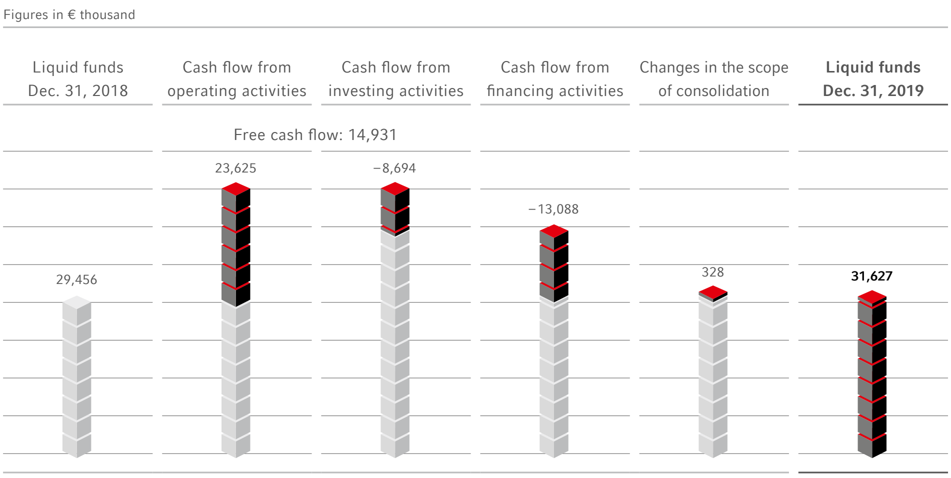
Notes 30 – 34

The operating cash flow amounted to € 23.6 million in the period under review and was thus significantly higher than in the previous year (€ 16.9 million). The increase in the operating cash flow by comparison with the previous year is attributable, in particular, to the increased EBITDA operating result (here, EBIT plus depreciation and amortization) as a result of the new accounting rules for leased assets. The lower trade receivables (+ € 3.5 million) and inventories (+ € 1.7 million) have also had a positive impact on the operating cash flow. On the other hand, other assets have increased (– € 3.9 million) while trade payables have declined (– € 2.8 million).

The cash flow from investing activities was – € 8.7 million (previous year: – € 0.8 million). Cash-based fixed assets investments were € 10.5 million (previous year: € 8.9 million). Outflows of funds due to reduced financial receivables (–€ 0.1 million) are a further factor. Inflows from the disposal of intangible assets and property, plant and equipment as well as financial assets amounted to € 1.5 million in the year under review (previous year: + € 7.8 million).

Accordingly, the free cash flow – which is made up of the cash flow from operating activities and the cash flow from investing activities – amounted to € 14.9 million (previous year: € 16.0 million).

Change in liquid funds



The cash flow from financing activities was – € 13.1 million (previous year: – € 4.5 million). Amounts due to banks in the amount of € 7.7 million were newly borrowed, while other financial liabilities were repaid by a net amount of € 15.1 million, which was reflected in cash. The high repayment volume resulted from the increased financial liabilities in connection with leased assets (IFRS 16).

Significant additional outflows of funds resulted from interest paid in the amount of € 2.9 million and dividends paid in the amount of € 2.6 million.

Cash and cash equivalents increased by € 2.1 million to € 31.6 million as of December 31, 2019.

Assets Position

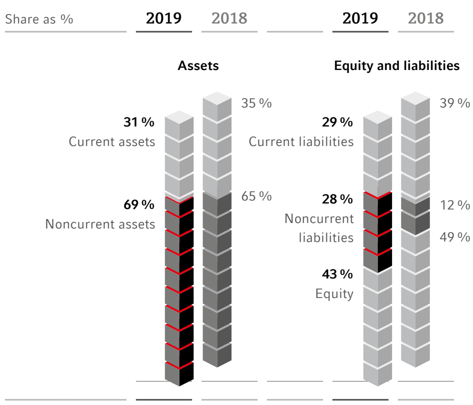
Significantly Increased Balance Sheet Total Due to the Effects of IFRS 16 Notes 10 – 19

In 2019, the balance sheet total of the Deufol Group increased by 15.4 %, or € 35.9 million, to € 269.4 million. The new leasing accounting rules were the main factor behind this significant increase. Since the year under review, as a rule leased assets have been reportable in the balance sheet. This contrasts with corresponding financial liabilities on the liabilities side of the balance sheet. This effect contributed an amount of € 29.0 million to the increase in the balance sheet total.

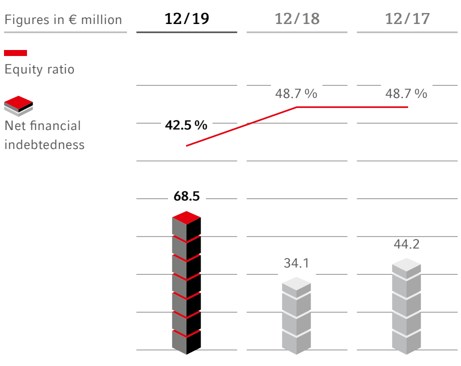
On the assets side of the balance sheet, noncurrent assets increased by 21.0 %, from € 152.9 million to € 185.0 million. This increase was due to the above-mentioned leasing accounting rules. Property, plant and equipment has increased from € 51.1 million to € 79.6 million due to the first-time recognition of leased assets. Property, plant and equipment also increased by € 7.5 million due to the investments already made in Hungary, particularly in the assets under construction and land and buildings items. On the other hand, the reporting of a property in Belgium as a current asset due to its sale in 2020 has reduced the property, plant and equipment figure. Due to the leased assets item, the asset depreciation ratio (ratio of accumulated depreciation to historical cost) decreased by 7.0 percentage points on the previous year to 47.8 %, while the property, plant and equipment ratio (i.e. the ratio of property, plant and equipment to the balance sheet total) increased from 21.9 % to 29.5 %. The carrying amount of the real estate reported as investment property for the first time in the previous year has increased by € 2.9 million. This is due to the adjustment of the carrying amount in line with the current fair value. Goodwill did not undergo any changes during the year under review. Investments in associates increased slightly, by € 0.1 million to € 1.3 million. In respect of the other noncurrent assets, other receivables increased by € 1.8 million. On the other hand, other intangible assets decreased by € 1.2 million. There were no other significant changes.

At € 84.5 million, current assets likewise increased (previous year: € 80.6 million). Inventories have decreased by € 1.7 million to € 11.6 million. Trade receivables have also decreased significantly (– € 3.4 million to € 29.2 million). This is mainly due to the decline in sales. On the other hand, financial receivables and other receivables and assets increased by € 2.2 million to € 6.2 million. Cash and cash equivalents also increased (+ € 2.2 million to € 31.6 million). The sale of a property in Belgium was contractually agreed in 2019. However, since this property will only be handed over in mid-2020, the substantial income associated with its sale will only

Balance sheet structure



Net financial indebtedness and equity ratio



be reported in fiscal year 2020. The property itself has therefore been reported within the current assets item of the 2019 annual financial statements, as noncurrent assets held for sale. Other current assets changed only slightly.

Working capital – the difference between current assets and current non-interest-yielding liabilities – increased from € 35.2 million to € 41.9 million. This has mainly resulted due to the reporting of the above-mentioned property in the current assets item.

Increased Equity Notes 20 – 29

At the end of fiscal year 2019, the equity of the Deufol Group amounted to € 114.5 million (previous year: € 113.6 million). While the balance sheet total has increased significantly, the equity ratio is 42.5 % (previous year: 48.7 %). The new accounting rules for leased assets have also had a significant effect on the equity ratio. Equity mainly increased due to the result for the period (€ 3.1 million). It decreased on account of the dividend distribution made in 2019 (– € 2.6 million). Noncontrolling interests also decreased (– € 0.2 million to € 1.8 million). On the other hand, other comprehensive income has contributed to the increase in equity (+ € 0.5 million to + € 0.3 million).

Noncurrent liabilities increased by € 47.2 million to € 75.5 million. This reflects the strong increase in noncurrent financial liabilities (+ € 46.2 million to € 63.8 million). On the one hand, these increased in the reporting year due to the liabilities associated with the new leasing accounting rules (+ € 15.1 million). The remainder of this increase resulted from the renegotiated syndicated loan agreement. In the previous year, an amount of € 25.5 million was reported as a current financial liability, since the previous agreement would have expired in October 2019. Due to the conclusion of the new syndicated financing arrangement in May 2019 with a five-year term, the liabilities resulting from this agreement have now once again been reported under noncurrent liabilities, which have thus increased by € 20.7 million. A real estate financing arrangement with a volume of € 12.9 million was negotiated at the same time. There were no other significant changes.

The current liabilities decreased by € 12.2 million to € 79.4 million. This also reflects the above-mentioned effects. On balance, current financial liabilities decreased by € 9.4 million to € 36.8 million. This balance mainly consists of a € 13.9 million rise due to the new leasing rules and a decrease on account of the reclassification of € 20.7 million to the noncurrent financial liabilities as a result of the signing of the new syndicated loan agreement. Trade payables (– € 2.7 million to € 26.0 million) and other provisions (– € 0.9 million to € 2.5 million) have also decreased. Other current liabilities have increased slightly to € 13.1 million.

Employees

Decrease in Number of Employees Note 04

The Deufol Group had 2,185 employees on average over the course of the year. This represents a decrease of 162 employees or 6.9 % on the previous year. On average, the Group had 1,415 employees in Germany (64.8 %) and 770 employees (35.2 %) elsewhere.

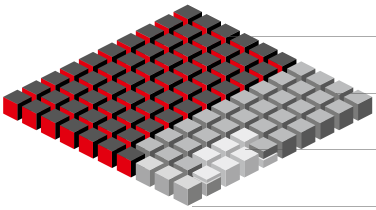
On average, with 1,333 employees at the Group's operating locations in Germany its workforce declined by 46 employees on the previous year. In the Rest of Europe, the average number of employees increased by two to 647. In the USA/Rest of the World, the average workforce over the year as a whole decreased by 122 to 123. This decline occurred in the USA, with the focus on Industrial Packaging in that country. The holding's workforce has increased on the previous year. It now has 82 employees (previous year: 78).

Personnel costs decreased in the reporting period by 8.0 % to € 90.5 million. As in the previous year, the personnel cost ratio as a ratio of personnel costs to Deufol's overall operating performance amounted to 34.8 %.

Overview of employees

Deufol Group	2019	2018
Germany	1,415	1,457
Rest of the World	770	890
Female	389	426
Male	1,796	1,921
Total	2,185	2,347
As of: Dec. 31	2,170	2,323

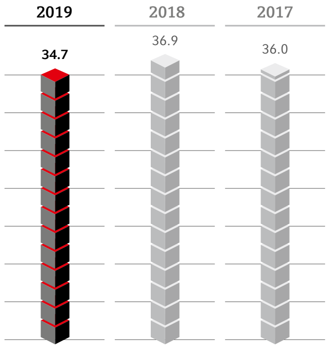
Employees by segment



Deufol Group		2019	2018
61.0 %	Germany	1,333	1,379
29.6 %	Rest of Europe	647	645
5.6 %	USA/Rest of the World	123	245
3.8 %	Holding	82	78
100.0 %	Total	2,185	2,347

Personnel expense ratio

Figures in %



Thanks for Strong Commitment

The managing directors would like to thank all the Company's employees for the dedication and flexibility which they displayed in fiscal year 2019.

Development in the Segments

Germany

Figures in € million

	2019	2018
Sales	172.5	180.6
Consolidated sales	152.1	157.8
EBITA = EBIT	4.8	3.7
EBITA margin (%)	3.2	2.3
EBT	3.4	−0.9

Germany Notes 39, 40

At € 152.1 million, consolidated sales in Germany in 2019 were lower than sales in the previous year, when they amounted to € 157.8 million. There were no substantive changes to the consolidated group. The decline in sales reflects the challenging economic environment in which the Deufol Group finds itself.

In the reporting period, EBITA for this segment amounted to € 4.8 million (previous year: € 3.7 million). The EBITA margin increased from 2.3 % in the previous year to 3.2 %. The increased margin by comparison with the previous year chiefly resulted from cost optimization measures as well as the standardization of processes.

Rest of Europe

Figures in € million

	2019	2018
Sales	89.3	90.0
Consolidated sales	60.4	65.2
EBITA = EBIT	6.9	9.2
EBITA margin (%)	11.4	14.1
EBT	6.3	8.8

Rest of Europe Notes 39, 40

In the Rest of Europe, we realized consolidated sales of € 60.4 million, which is also lower than in the previous year (€ 65.2 million). In the past fiscal year, two new companies were founded in Hungary. These were still in the process of being set up in this fiscal year and provided only insignificant sales and earnings contributions. We noticed the difficult economic conditions in our packaging business in Belgium in particular. Otherwise, all of our other countries roughly matched the previous year's level.

In the past year, this segment achieved an operating result (EBITA) of € 6.9 million, compared to € 9.2 million in the previous year. This decrease is mainly attributable to the remeasurement of investment property, which had increased the EBITA figure by € 8.2 million in the previous year due to its initial recognition. In the year under review, the remeasurement of these properties at their current fair value caused the EBITA figure to increase by a further € 2.9 million.

USA / Rest of the World

Figures in € million

	2019	2018
Sales	34.5	41.9
Consolidated sales	34.3	41.9
EBITA = EBIT	−0.4	0.6
EBITA margin (%)	−1.2	1.4
EBT	−0.8	0.0

USA / Rest of the World Notes 39, 40

In the USA / Rest of the World segment, at € 34.3 million consolidated sales were clearly lower than in the previous year (€ 41.9 million). Of this decline, € 7.0 million relates to our business in the USA in the Consumer Goods Packaging segment. This is mainly due to the business relationship with a major customer whose scope once again declined and which subsequently ended during the reporting year. Sales at the American export packaging locations are roughly in line with the previous year's level. Sales in China have once again decreased (– € 0.6 million). The appreciation of the US dollar against the euro by an average of 5.2 % has increased the volume of sales in this segment by € 1.7 million by comparison with the previous year.

EBITA in this segment amounted to –€ 0.4 million (previous year: € 0.6 million). The EBITA margin thus decreased from + 1.4 % in the previous year to – 1.2 %. This decrease is attributable to the strong decline in sales.

Holding Notes 39, 40

The EBITA figure in the Holding segment amounted to – € 2.7 million in the past fiscal year, compared to – € 4.3 million in the previous year. The improved operating result has resulted from negative one-off factors in the previous year.

Overall Summary of Business Performance

Sales Goal Not Achieved, EBITDA Above Target

With our annual sales volume of € 247.1 million, we have failed to achieve our sales target published in our Annual Financial Report 2018, which had envisaged sales in a range of between € 270 million and € 290 million. The global recession affecting industrial production and trade was a key factor behind our failure to achieve our target. This recession began in the second half of 2018 and clearly worsened over the course of the year under review. In our semi-annual financial report, we therefore already pointed out that we would probably not achieve our original sales target.

Our operating result (EBITDA) reached € 28.2 million and was thus significantly higher than the forecast range of between € 15.5 million and € 17.5 million. The changed accounting rules for leased assets are the main reason why the EBITDA figure is significantly higher than our earnings goal, despite declining sales. Due to these rules, the lease expenses which previously reduced the EBITDA figure were removed from the operating result and reclassified to depreciation, amortization and impairment and finance costs.

At the time of preparing these consolidated financial statements, the Deufol Group's economic position is stable. However, due to the corona crisis the economic outline conditions are highly uncertain and may be subject to significant fluctuations. At the end of the first quarter of 2020, several markets and regions in which Deufol operates have already suffered considerable declines. However, other markets and regions are stable. In some cases, we are even noticing an increased level of demand for packaging services. Much will depend on how quickly the current restrictions affecting public and economic life can be rolled back. Since this is not currently foreseeable, it is not possible to provide any concrete assessment regarding the economic threat to the Deufol Group in the second quarter of 2020 and beyond.

Our financial and asset position is currently solid. However, the above-mentioned restrictions due to the corona crisis are also affecting our financial and asset position. The managing directors have therefore already implemented a raft of measures in order to stabilize the Group's results of operations and to ensure the availability of liquidity at all times.

Group figures

Figures in € million	2019
Sales	247.1
EBITDA	28.2
EBITA	6.2
Net financial liabilities	68.5

Goal achievement 2019

Figures in € million	Sales	EBITDA
Planning	270–290	15.5–17.5
Actual figures	247.1	28.2

Single-Entity Financial Statements of Deufol SE

Income statement of Deufol SE

Figures in € thousand	2019	2018
Sales	11,041	14,483
Other operating income	11,793	5,242
Cost of materials	(1,897)	(4,773)
Personnel costs	(7,179)	(8,579)
Depreciation, amortization and impairment	(1,305)	(1,244)
Other operating expenses	(8,732)	(9,959)
Financial result	(515)	6,020
Taxes	60	(34)
Annual net profit	**3,146**	1,156

Sales and Results of Operations

In fiscal year 2019, Deufol SE realized sales of € 11,041 thousand (previous year: € 14,483 thousand) and other operating income of € 11,793 thousand (previous year: € 5,242 thousand).

These sales mainly resulted from amounts billed to affiliated companies for purchasing services provided, other services, license income from brand name rights and from rents. Outside Germany, sales amounted to € 2,916 thousand (previous year: € 2,871 thousand).

Other operating income mainly consists of income from the release of valuation adjustments in the amount of € 6,010 thousand (previous year: € 20 thousand) – of which € 5,414 thousand relates to a loan to a subsidiary – as well as passed-on expenses in the amount of € 2,748 thousand (previous year: € 2,661 thousand), income from the release of provisions in the amount of € 750 thousand (previous year: € 441 thousand) and income from exchange-rate differences in the amount of € 719 thousand (previous year: € 871 thousand).

The cost of materials in the amount of € 1,897 thousand (previous year: € 4,773 thousand) is due to central goods purchasing and is passed on in the same amount.

Other operating expenses (€ 8,732 thousand, compared to € 9,959 thousand in the previous year) mainly comprise legal fees and consulting expenses in the amount of € 1,982 thousand (previous year: € 2,197 thousand), insurance costs in the amount of € 1,55 thousand (previous year: € 1,189 thousand), IT and communications costs in the amount of € 956 thousand (previous year: € 1,194 thousand), rental and lease expenses in the amount of € 891 thousand (previous year: € 949 thousand), vehicle fleet costs in the amount of € 592 thousand (previous year: € 570 thousand), losses from the disposal of fixed assets in the amount of € 27 thousand (previous year: € 860 thousand), bad debt charges/closing-out of receivables in the amount of € 381 thousand (previous year: € 589 thousand) as well as exchange losses in the amount of € 386 thousand (previous year: € 126 thousand). Expenses unrelated to the accounting period amounted to € 239 thousand (previous year: € 77 thousand).

In the past year, the financial result was negative and amounted to – € 515 thousand, compared to + € 6,020 thousand in the previous year. Net interest income has improved from – € 76 thousand to + € 255 thousand. Moreover, income from profit transfer agreements has improved from € 3,957 thousand to € 4,539 thousand. In the past fiscal year, investment income was recognized in the amount of € 106 thousand (previous year: € 2,139 thousand). Impairment of financial assets in the past fiscal year totaled € 5,414 thousand (previous year: € 0 thousand). This relates to the shares held in a subsidiary and was necessary due to the revaluation of this company.

Taxes amounted to € 60 thousand (previous year: € 34 thousand). The net profit for the year under review amounted to € 3,146 thousand (previous year: € 1,156 thousand).

Assets and Financial Position

In the reporting year, the balance sheet total of Deufol SE increased significantly and amounted to € 180.6 million (previous year: € 161.0 million). Fixed assets amount to € 120.6 million, compared to € 113.1 million in the previous year. At € 60.0 million, the current assets item including accrued and deferred items is significantly higher than in the previous year (previous year: € 47.9 million). Depreciation of property, plant and equipment and amortization of intangible assets amounted to € 1,305 thousand (previous year: € 1,244 thousand), amortization of financial assets to € 5,414 thousand (previous year: € 0 thousand). Investments in property, plant and equipment and intangible assets amounted to € 857 thousand (previous year:

€ 1,119 thousand). Investments in financial assets amounted to € 15,941 thousand (previous year: € 6 thousand) and mainly consist of long-term internal loans within Deufol.

On the liabilities side, equity has increased from € 96.2 million to € 96.9 million, due to the net profit for the year in the amount of € 3,146 thousand and less the dividend paid in the amount of € 2,570 thousand. The equity ratio of 53.7 % as of December 31, 2019 decreased by comparison with the previous year (59.8 %), due to the higher balance sheet total. Provisions have decreased slightly to € 4.4 million (previous year: € 4.6 million). Liabilities have increased considerably, from € 60.2 million to € 79.3 million. The € 3.2 million decrease in liabilities to banks, to € 43.1 million, contrasted with the € 20.5 million increase in liabilities to affiliated companies, to € 31.0 million.

The following cash flow statement shows the financial position of Deufol SE:

Cash flow statement of Deufol SE

Figures in € thousand	2019	2018
Annual net profit	3,146	1,156
Depreciation / (appreciation)	1,305	1,244
Increase / (decrease) in provisions	−894	183
Other noncash expenses / (revenue)	−5,414	1,041
Noncash valuation adjustments on financial assets	5,414	0
Net changes in working capital assets	−8,069	889
Net changes in working capital liabilities	7,949	(5,105)
(Gain) / loss from disposal of fixed assets	27	0
Interest income / interest expense	−255	76
Income from investments and profit transfer	−4,645	(6,096)
Noncash income tax expense	−28	23
Income tax refunds / payments	738	(223)
Cash flow from operating activities	**−725**	(6,812)
Payments made for investments in intangible assets	−770	704
Proceeds from the sale of intangible assets	32	0
Payments made for investments in property, plant and equipment	−87	(415)
Payments made for investments in financial assets	−16,092	6
Proceeds from the sale of financial assets	7,971	593
Interest received	1,841	1,364
Income received from investments and profit transfer	4,645	6,096
Cash flow from investing activities	**−2,460**	6,928
Proceeds from borrowings	14,800	4,842
Repayment of borrowings	−3,653	0
Issuance of treasury stock	151	0
Dividend payments	−2,570	(2,578)
Interest paid	−1,586	(1,440)
Cash flow from financing activities	**7,142**	824
Change in cash	3,957	940
Cash at the beginning of the period	5,027	4,087
Cash at the end of the period	8,984	5,027

Balance sheet of Deufol SE

Figures in € thousand	2019	2018
Fixed assets	120,684	113,071
thereof financial assets	111,515	103,394
Current assets and accrued and deferred items	59,939	47,913
Balance sheet total	**180,623**	160,984
Equity	96,876	96,149
Provisions	4,412	4,596
Liabilities	79,335	60,239
thereof amounts due to banks	43,117	46,270
Balance sheet total	**180,623**	160,984

Risk Report

Risk Policy

The role of Deufol SE is to act as a management holding company for subsidiaries which provide services in Germany and elsewhere, focusing on packaging. As part of its holding tasks, Deufol SE provides the resources required for risk management and monitors implementation of risk-policy and risk-management procedures on an ongoing basis. Corporate management and control, corporate governance, the by-laws and the risk policy are coordinated within the Deufol Group.

Exposure to risks is unavoidable in our efforts to achieve long-term success by taking advantage of opportunities in our services divisions and regions in an environment of constantly changing requirements and challenges. These are carefully examined and assessed on the basis of a risk/opportunity calculation. Our corporate and business strategy is to concentrate operational activities and the risks associated with them within separate legal entities in order to insulate the rest of the Group from possible negative influences.

The core risks are monitored on an ongoing basis and suitable measures are implemented to reduce them. The core risks comprise, in particular, risks associated with the Company's current and future business situation. Risks include potential losses of customers due to the relocation of packaging-related production locations or insufficiently rigorous development of market leadership in core business fields. Noncore and residual risks are accepted provided they can be specifically identified and mapped. Certain noncore risks are externalized by taking out insurance policies (force majeure, liability to third parties for loss or damage, etc.). In particular, corporate governance guidelines (incl. the Deufol SE by-laws) and the active monitoring of subsidiaries as the parent company ensure that the deliberate acceptance of risks proceeds in a transparent and controlled fashion.

The managing directors of Deufol SE consider a highly developed awareness of risk in all business divisions to be indispensable for the success of its risk policy. Awareness of existing and potential risks is an important element of business management. Due to the various risk areas and the different ways in which risks are applicable within the individual subsidiaries, this increased awareness is vital for the successful implementation of risk policy.

All activities of subsidiary companies are supported by an integrated risk management system without exception. The purpose of risk management activities is, firstly, to ensure that statutory requirements are complied with, and secondly, to promote value-oriented management of individual companies and thus of the Deufol Group as a whole.

Risk Controlling

Risks are identified by division managers or managing directors on the basis of the following nine risk categories: Strategy/planning/corporate management, Market/sales/customers, Procurement/suppliers, Service provision, Finance, Personnel, IT, Contracts/legal and Other.

The responsible managers document the risks identified in "risk maps" on a semi-annual basis. Aggregation is subsequently implemented at Group level and the managing directors receive a report.

Risk measurement is standardized throughout the Group. Risks identified in risk maps are assessed by the companies' local or site managers in terms of probability of occurrence and amount of potential loss, in the context of the gross risk level. Individual risks are assigned quantitative values requiring response upon reaching specific thresholds. The net risk level is subsequently evaluated following implementation of the measures.

Measures taken to control identified risks are subject to regular on-site monitoring as to their effectiveness. The managing directors and regional managers also perform risk monitoring functions in the course of regular visits to the individual subsidiaries.

Specific Risks

Environment Risks

Due to the corona pandemic, whose economic consequences are not currently foreseeable, it is difficult to provide a reliable statement regarding the economic trend for the remainder of 2020. At the present time, neither the duration nor the scope of the economic impact of the corona crisis can be reliably predicted. It is also not known to what extent the numerous government assistance packages will alleviate the consequences. We are therefore expecting an extremely challenging economic trend and will at least seek to maintain our status quo. We had actually expected a stable sales volume or even a slight increase for 2020, but as a result of corona that is now in question since the markets which are relevant for us are likely to suffer stronger than expected declines and the envisaged market share gains are not likely to make up for the downward trend on the market here. In the event that the government assistance packages do not deliver the desired effects or if the corona crisis continues to restrict public and economic life to the current extent, we even assume that a global recession will materialize which would then also affect Deufol.

The economic risks have therefore reached an unprecedented level. Deufol is seeking to counter this situation by means of the close exchange of information at global management level on a near-daily basis as well as the evaluation and utilization of all of the assistance packages offered worldwide which it may legitimately draw upon. As of the time of preparation of this report, our sales figures have suffered significant declines in several of the regions where Deufol operates. However, in other regions we are not noticing any significant declines in business. In addition, cost optimization measures which we have implemented at the same time are helping to cushion potential corona-related sales losses, so that our net income will be less strongly affected than our sales figure.

The political risks have also increased significantly. No one is currently able to predict to what extent the global supply chains will remain intact in the post-corona era. Limitation of imports and more locally oriented production have become more probable in many countries. This may provide new opportunities for Deufol but more probably poses considerable risks; after all, export packaging for industrial goods is one of our core competences. The expansion of tariffs within the scope of the current trade conflicts remains possible – with related negative consequences for the world economy and thus also for Deufol. Moreover, the issue of how Brexit – which has now formally taken place – will be implemented remains unresolved. The significantly increased financial risks are not negligible. Extensive assistance packages have been established in almost every country on account of the corona crisis.

As a rule, this should make borrowing easier. However, many countries, companies and private individuals were already heavily indebted even before the crisis. The credit default risk may increase substantially due to the additional debts triggered by the corona crisis. Depending on the duration of the corona pandemic and the associated economic restrictions, Deufol too may require additional loans.

As a result of the global corona crisis, negative demand effects have already arisen in key customer markets for our Group, particularly in the export-oriented mechanical and plant engineering sector. With a time lag, these effects will also impact on our business in 2020.

Acquisition and Investment Risks

Acquisition and investment decisions intrinsically involve complex risks, since they tie up substantial capital on a long-term basis. Such decisions can only be made on the basis of specific, predefined terms governing responsibilities and approval requirements. In particular, the environment risks which have been triggered by the corona pandemic are currently hampering both acquisitions and investments.

Performance-Related Risks

Sales and earnings of the subsidiaries are largely dependent on a relatively small number of business relationships with larger customers. Customers come from different industries (plant engineering, automotive manufacturing, consumer goods manufacturers, etc.), creating a certain risk-reducing effect besides the fact that different, unrelated services are provided for one and the same customer.

A primary objective of the Deufol Group is to promote customer loyalty, e.g. through joint process and efficiency improvement projects with our customers, as well as a strong customer focus and a high level of flexibility. The acquisition of smaller customers is also important in order to broaden our customer base.

The structuring of contracts with customers also poses certain risks, e.g. if contracts restrict our ability to react to quantitative or qualitative changes affecting our business. At the same time, price adjustment clauses are not always adequate for promptly passing on unexpected procurement price increases for raw materials (e.g. wood) to customers. Regular reviews are implemented to ensure early recognition of negative trends for the Company or for individual subsidiaries, for prompt identification of impending declines in sales and cost trends and to enable an appropriate response.

Personnel Risks

A major part of the business success of the Deufol Group rests upon the skills, qualifications and motivation of its employees and managerial staff. For this reason, employees undergo regular training in order to ensure that the quality of the services provided meets customer requirements and conforms to the Company’s quality targets. Employees at all levels of the Company are being progressively sensitized to risk issues to ensure compliance with risk policy. Senior management remuneration packages have been systematically restructured to emphasize variable, performance-related components such as bonuses as an incentive for reaching targets.

External contractors are utilized in some cases. This allows the Company to manage phases of increased or reduced business activity without the need for any layoffs affecting its trained workforce.

Our subsidiaries are now run by managers with close ties to Deufol and an entrepreneurial attitude. The risk of loss of know-how through the departure of key personnel is limited through documentation of relevant know-how and its possession by multiple persons by virtue of the decision-making process structure.

IT Risks

In principle, possible IT risks may result from the failure of networks or the falsification or destruction of data through operating or programming errors. However, some of the IT infrastructure of the Deufol Group reflects the Group's decentralized structure. There are therefore only isolated IT risks in the individual units in this area, and there are no Group-wide risks. Other elements of the Group's IT infrastructure have been centralized or outsourced. The individual companies and divisions have extensive protection measures such as virus-protection concepts, firewalls, and emergency and recovery plans as well as additional external backup solutions in accordance with specific requirements. A redundant server system has been established, thus significantly reducing the probability of data losses due to outages.

Financial Risks

Various financing groups exist within the Deufol Group, which are largely independent of one another. In Europe, the Group's central syndicated financing arrangement was renegotiated in 2019. Its term will now end in May 2024, and this financing offers the Deufol Group adequate security and financial leeway in order to implement all of its strategic measures alongside its day-to-day business operations. The Group also has other financing groups in the USA, the Czech Republic, Italy, Belgium and Austria, which are largely independent of its central syndicated financing arrangement. Financing of the Group's Hungarian companies will also be largely provided outside the scope of the syndicated financing arrangement in 2020.

Within the Group, credit agreements are mainly tied to compliance with financial ratios ("financial covenants"). A violation of the financial covenants provides the banks with a right to terminate an agreement but does not automatically trigger a repayment obligation. In addition, the agreed credit margin and thus the Group's financing costs may be increased in case of a deterioration in the ratios. The Deufol Group's ratios may significantly deteriorate as a result of the corona crisis. We have therefore already commenced negotiations with our banks, so as to deal in good time with this problem, which is not limited to Deufol alone.

Interest-rate fluctuation risks apply due to the fact that the Group has arranged almost all of its short-term financing on the basis of variable interest rates. Property, plant and equipment are almost exclusively financed on a long-term basis, mainly by means of fixed-rate amortizing loans, in order to maintain the attractive current interest-rate environment on a medium- and long-term basis.

The risks resulting from exchange-rate fluctuations mainly apply within the scope of consolidation as a result of the conversion of the annual financial statements of companies outside the euro currency zone. Exchange rates have only a marginal effect on operating business. In the single-entity financial statements, currency risks exclusively apply for transactions with subsidiaries outside the euro currency zone. In the context of the growing significance of our business activities in the Czech Republic, we have hedged ourselves against exchange-rate risks there. The expansion of our business in Hungary is mainly being carried out in euros, and the euro is the functional currency of our Hungarian companies. This approach means that only moderate exchange-rate risks apply in relation to the Hungarian forint.

Please see the “Financial Risk Management” section (Note 38 on pages ▶ 089 ff.) for further information on financial risks.

The Group has recognized goodwill in consequence of its expansion strategy. Impairment testing pursuant to IAS 36 may necessitate goodwill amortization/impairment. The impairment testing implemented in 2019 did not identify any amortization/impairment requirement.

Legal Risks

The Deufol Group is exposed to general legal risks resulting from its business activities and from tax affairs. It is not possible to state with any certainty the outcome of currently pending or future proceedings, so that expenses may result due to judicial or official rulings or settlements such as are not covered or are not fully covered by insurance benefits and which may significantly affect our business operations and earnings.

Please see the “Contingencies and Contingent Liabilities” section (Note 35 on page ▶ 088) for further information on legal risks.

Overall Group Risk Position

In summary, risks may apply on account of the corona pandemic which would jeopardize the continued existence of the Deufol Group as a going concern from an operational or financial point of view. Due to the high level of uncertainty in relation to the duration and the extent of the crisis, it is not currently possible to provide any precise statement regarding the probability of the realization of these risks and their financial impact.

The structure of the Deufol Group – comprising a managing holding company and a large number of operating units, together with a wide range of services offered in various sectors and regions – has proven effective from a risk standpoint. Operating risks for individual subsidiaries are covered through appropriate insurance protection as far as possible. The risk management system is being continually upgraded and enhanced to allow risks to be identified at an early stage and appropriate countermeasures to be taken.

Report on Dependence

Since there is no control agreement with the majority shareholder, pursuant to section 312 of the German Stock Corporation Act (AktG) the managing directors of Deufol SE were obliged to prepare a report on Deufol SE's relationships with associates. This report covers the relationships with Lion's Place GmbH and its majority shareholders among the Hübner family, as well as the companies of the Deufol Group. The managing directors declare pursuant to section 312 (3) AktG: "With regard to the legal transactions listed in the report on Deufol SE's relationships with associates, for each such transaction our Company has received an appropriate consideration in accordance with the known circumstances at the time of its execution. No disadvantageous events for the Company occurred during the fiscal year such as are subject to a reporting obligation."

Report on Opportunities and Expected Developments

Planned Orientation and Strategic Opportunities for the Group

Over the past few years, we have successfully implemented further steps to improve Deufol's operational effectiveness and to strengthen its corporate culture. For example, this includes improved integration of our locations, with targeted tools and an increased exchange of information. At the same time, we pursue the ongoing development of our innovative Deufol applications. These applications offer our customers transparency as well as added value throughout their value chains. This enables us to differentiate ourselves from competitors in the export and industrial packaging sector.

The structure of the Deufol Group with Deufol SE as the top management holding company and around 50 operating companies in the relevant markets will be maintained for risk limitation purposes. In this way, we will also preserve our on-site flexibility and will be able to better satisfy the different requirements of various markets and regions.

In particular, among the strategic opportunities which this offers for a corporate group is that we are able to exploit the advantages of our size as a significant market player. As a globally oriented premium service provider in the field of packaging and related services, we offer our clients who operate worldwide holistic solutions that support their strategies. We are constantly expanding our business segments to include additional services to complement packaging, as well as proprietary software solutions which embed the packaging process within an intelligent package of services. So as to react even more flexibly to our customers' needs and demands in the future, from 2020 we will divide up our business into four new segments:

1. Packaging and Logistics: This is our core competence, where we provide custom-fit packaging solutions and related services.
2. Production: We standardize and systematize the production and distribution of packaging materials.
3. IT Services: We provide support for our customers in the form of helpful services and proprietary tools across their complex supply chains.
4. Real Estate: We optimize the usage and management of our global locations.

We thus aim to offer our customers sustainable, innovative and comprehensive services with top quality. In addition, this will enable us to meet their continuously growing demands. At the same time, we are consolidating our position as our customers increasingly focus on just a few core service providers.

Our outstanding qualities as a packaging services provider include our international presence. Many of our clients have a “global footprint”, which means that it is essential for us to develop and provide our services with our customary standard of quality, at an international level.

Economic Outline Conditions

World Economy in Shock

According to the joint diagnosis #1-2020 provided by various German economic research institutes on behalf of the German Federal Ministry for Economic Affairs and Energy, the corona pandemic is having a significant negative impact on the world economy, through various channels. These effects have resulted due to the reduced availability of labor on account of increased sickness levels, measures implemented to counter the pandemic, as well as changes of behavior on the part of both private households and companies, together with the cancellation of events and the decline in travel, quarantine measures which are an obstacle to goods manufacturing and production processes, and finally households’ and companies’ purchasing and investment restraint.

It is hardly possible to tackle the negative consequences of the spread of the coronavirus and the measures to curb the pandemic by means of the monetary and fiscal policy tools which are applied to control demand. However, central banks and governments may seek to implement appropriate measures in order to prevent a temporary decline in business volumes from giving rise to lasting consequences in the real economy, such as a high number of company insolvencies and mass job losses. Assistance for companies, loan guarantees and income-stabilizing payments are intended to tackle liquidity problems for affected companies, so as to limit the negative consequences for the potential level of output as far as possible.

According to initial indicators, the global economy has suffered a huge slump. The leading indices on the stock exchanges temporarily fell by more than 40 %. The above-mentioned economic research institutes assume that global activity will stage a gradual recovery from mid-2020 onwards at the latest. In this environment, global output will be 2.5 % lower than in the previous year – this is a slightly stronger fall than was seen at the time of the 2009 global financial crisis. In 2021, world output will increase by 5.4 %, with output largely approaching the level which would have been expected without the pandemic. This forecast entails significant downside risks: For instance, the pandemic may take a considerably longer period of time to ease off; the restart of economic activity may prove less successful than assumed; or this may trigger a new wave of infection.

Eurozone: Economic Plunge due to Corona Outbreak

The corona pandemic and the measures implemented in order to curb its spread have toppled the Eurozone and the rest of Europe into a recession. Italy and Spain are currently particularly badly affected. Since both countries' economies are particularly dependent on tourism and the hotel and restaurant sector, by comparison with other European countries, and these industries have been brought to a standstill by the containment measures, the corona crisis has hit these two countries doubly hard.

Overall, according to the joint diagnosis #1-2020 overall economic output in the Eurozone is likely to fall by 5.3 % this year. In the second half of the year, a strong countermovement will arise following the expected large-scale rollback of the containment measures. In 2021, output is then likely to increase by 5.8 %. On average for the year as a whole, the output level seen in 2019 will be regained.

The longer the crisis continues, the greater the risks for the solvency of several member states. Measures which have already been resolved and implemented represent an extraordinary burden for public budgets and will result in increased deficits and a rise in debt ratios. This might destabilize the financial system since significant loan defaults would probably be inevitable in the longer term. This represents a substantial risk for the stability and the continued existence of the monetary union.

Serious Recession for the German Economy

Overall, the corona pandemic will trigger a serious recession in Germany. For this reason, gross domestic product is likely to contract this year by 4.2 %. The recession will have a significant impact on the labor market and public finances. Provided that the shutdown measures imposed by the government are gradually rolled back from May onwards and if the measures resolved by German's national government and federal states – such as liquidity assistance, grants and the expected short-time allowance – pay off, the joint diagnosis #1-2020 assumes strong gross domestic product growth of 5.8 % in 2021. The favorable fiscal starting point means that the German government is in a position to implement extensive measures to cushion the negative short-term consequences for companies and private households. However, here too, there are considerable downside risks.

Company-Specific Outlook

Predicted Sales and Results of Operations

As a result of the corona pandemic, in 2020 the Deufol Group is faced with an extremely challenging economic environment characterized by unprecedented uncertainty. In this situation, Deufol does not currently consider itself able to provide sufficiently precise sales planning for fiscal year 2020. Without the corona crisis, in an already economically difficult environment Deufol had expected stable sales or slight sales growth. However, due to the economic outline conditions stated above we now assume that our sales volume will decline. In the raw materials markets which are relevant for us, to date we have not seen any substantial fluctuations due to the pandemic. Our operating result (EBITDA) is thus likely to be lower than in the past fiscal year, even though huge cost-cutting countermeasures have been initiated. However, independently of this, in 2020 we once again expect one-off effects such as the receipt of the proceeds of the sale of a property in Belgium which has already been finalized and will now be executed in 2020.

Due to the global spread of the corona pandemic, in all of the regions where we operate we expect to see shrinking markets. We aim to expand our market share in this environment and thus to be able to compensate for some of the decline in our volume of sales. Here, we should benefit from our size, our global presence and from our investment in standardized and digital processes. However, this is subject to a significant rollback of the measures to limit the spread of the virus in the second half of the year at the latest.

Expected Financial Position

At present, current business activities do not on balance require additional external financing. Without the corona pandemic, our current financial resources would cover our existing liquidity requirements. The Group’s central syndicated financing arrangement in Europe is secure up to the end of May 2024. If our business performance matches our forecasts, on account of our budgeted investments we anticipate a further increase in our net financial indebtedness in the current fiscal year. For our investment-based growth in Hungary and other parts of southeastern Europe, for instance, tailored financing solutions are planned and in some cases will be finalized soon.

However, the above-mentioned economic environment due to the corona pandemic does pose significant financial risks for the Deufol Group. In the event of a lasting and significant decline in sales up to the end of 2020, the Deufol Group would require additional financial support. Negotiations with the Group's banking consortium have already begun in order to flexibilize the framework for financing arrangements in addition to the existing syndicate agreement, and to expand this to include potential financial assistance.

In the current year, investments in fixed assets are planned with a volume of around € 17 million. The planned investments are thus significantly higher than in 2019 (€ 12 million). This is mainly attributable to our new location in Hungary but also reflects replacement investments in Belgium. In Hungary, in the year under review the investments got under way later and more slowly than had been envisaged at the start of the year. The overall investment will therefore mainly be made in 2020 and will continue in 2021 with further construction phases.

It may also be necessary to borrow additional external funds in case of acquisitions and in the event of operating growth beyond our budgeted level.

Managing Directors' Overall Summary of the Group's Expected Development

In the next few years, the Deufol Group intends to continue to develop its profile as a packaging services provider. For this purpose, it will also strengthen its distribution of packaging materials for industrial packaging – without the related packing service – as well as its distribution of IT services for logistics and, in particular, for project business in relation to large-scale industrial plants. Despite the significant risks and uncertainty triggered by the corona pandemic, our broad customer base and many years of business relationships, our specific know-how and our financial resources enable us to maintain a confident outlook regarding the Group's further development. This means that, despite an enormously challenging fiscal year 2020, we expect a positive trend for the Group in subsequent years.

Hofheim am Taunus, April 23, 2020

The Managing Directors

Detlef W. Hübner, Dennis Hübner, Jürgen Hillen, Jürgen Schmid

PACKAGING | PRODUCTION
REAL ESTATE | IT SERVICES

Optimizing our locations: Always close to our customers

Annual Report 2019 | **Real Estate**

Our success hinges on proximity to our industrial customers and their products. After all, packaging solutions are required directly on site. That is why we maintain 92 locations in twelve countries on three continents.

In the future, we intend to further optimize the use of our locations and our real estate. We are also seeking to standardize our real estate management in order to achieve Group-wide cost advantages. Finally, in our "Real Estate" business segment we will combine the full range of activities relating to our locations, to ensure the long-term development of our real estate portfolio.

Changes are a part of business life: That is why we are making flexible adjustments to our number of locations and their structure. For some of our customers' projects, we even open new locations and close them again once the project has been completed.

We are precisely where we are needed.
Around the globe.

For further information, go to
www.deufol.com/en


REAL ESTATE

Consolidated Financial Statements

as of December 31, 2019

Consolidated Income Statement

Figures in € thousand	2019	2018	Note/Page
Sales	**247,061**	265,109	01/064
Other own work capitalized	974	555	
Inventory changes	−236	433	
Other operating income	13,111	16,886	02/064
Overall operating performance	**260,910**	282,983	
Cost of materials	−99,289	−107,417	03/064
Personnel costs	−90,482	−98,340	04/064
Depreciation, amortization and impairment	−22,028	−9,031	11/070
Other operating expenses	−42,911	−58,384	05/065
Income (loss) from operating activities (EBIT)	**6,200**	9,811	
Financial income	555	123	06/066
Finance costs	−2,900	−1,999	06/066
Income (loss) from investments accounted for using the equity method	111	192	14/073
Other financial result	52	−24	
Profit (loss) before taxes (EBT)	**4,018**	8,103	
Income taxes	−951	−4,343	07/066
Result for the period	**3,067**	3,760	
thereof share of profits held by noncontrolling interests	64	−265	08/068
thereof share of profits held by shareholders in the parent company	**3,003**	4,025	

Earnings per share

Figures in €			
Basic and diluted earnings per share, based on the income (loss) attributable to common shareholders of Deufol SE	0.070	0.094	09/068

Consolidated Statement of Comprehensive Income

Figures in € thousand	2019	2018	Note/Page
Result for the period	**3,067**	3,760	
Other comprehensive income	**493**	447	
Items which may be reclassified to the income statement in future			
Income (loss) from currency translation, after taxes	409	841	
Cash flow hedges before taxes	272	−366	
Deferred taxes on cash flow hedges	−82	104	
Cash flow hedges after taxes	190	−262	38/089
Items which will not be reclassified to the income statement in future			
Actuarial income/loss (–) from pensions, after taxes	−106	−132	26/082
Comprehensive income after taxes	**3,560**	4,207	
thereof noncontrolling interests	64	−265	
thereof shareholders in the parent company	3,496	4,472	

Consolidated Balance Sheet

Assets Figures in € thousand	Dec. 31, 2019	Dec. 31, 2018	Note/Page
Noncurrent assets	**184,972**	**152,850**	
Property, plant and equipment	79,611	51,096	11/070
Goodwill	71,011	71,011	12/071
Other intangible assets	7,420	8,584	12/071
Investment property	14,345	11,493	13/072
Investments accounted for using the equity method	1,328	1,217	14/073
Financial receivables	68	0	
Other financial assets	8	8	
Other receivables and other assets	2,069	319	15/073
Deferred tax assets	9,112	9,122	07/066
Current assets	**84,468**	**80,630**	
Inventories	11,646	13,308	16/078
Trade receivables	29,206	32,595	17/078
Other receivables and other assets	5,878	3,701	15/073
Tax receivables	1,695	1,299	
Financial receivables	346	271	
Cash and cash equivalents	31,627	29,456	18/079
Noncurrent assets held for sale	4,070	0	19/079
Total assets	**269,440**	**233,480**	

Equity and liabilities Figures in € thousand	Dec. 31, 2019	Dec. 31, 2018	Note/Page
Equity	**114,543**	**113,599**	
Equity attributable to the shareholders of Deufol SE	112,783	111,619	
Subscribed Capital	43,774	43,774	20/080
Capital reserves	107,329	107,240	21/080
Retained earnings	11,609	10,204	22/080
Profit brought forward	−49,712	−48,828	
Other comprehensive income	258	−235	
Treasury stock at cost	−475	−536	23/080
Noncontrolling equity interests	1,760	1,980	24/081
Noncurrent liabilities	**75,496**	**28,303**	
Financial liabilities	63,779	17,628	25/081
Provisions for pensions	3,603	3,662	26/082
Other provisions	15	39	27/084
Other liabilities	883	77	28/085
Deferred tax liabilities	7,216	6,897	07/066
Current liabilities	**79,401**	**91,578**	
Trade payables	25,984	28,664	29/085
Financial liabilities	36,787	46,168	25/081
Other liabilities	13,075	12,447	28/085
Tax liabilities	1,089	924	
Other provisions	2,466	3,375	27/084
Total equity and liabilities	**269,440**	**233,480**	

Consolidated Cash Flow Statement

Figures in € thousand	2019	2018	Note/Page
Income (loss) from operating activities (EBIT)	6,200	9,811	
Adjustments to reconcile net income (loss) to cash flow from operating activities			
Depreciation, amortization and impairment	22,066	9,050	10–12/069 FF.
(Gain) loss from disposal of fixed assets	–221	–1,126	02, 05/064, 065
(Gain) loss from disposal of investments	0	6	
Taxes paid	–822	–3,235	
Adjustment of the fair value for investment property	–2,852	–8,157	02/064
Other noncash expenses/revenue	51	–10	
Changes in assets and liabilities from operating activities			
Decrease (increase) in trade accounts receivable	3,531	8,854	
Decrease (increase) in inventories	1,723	–968	
Decrease (increase) in other receivables and other assets	–3,915	5,021	
Increase (decrease) in trade accounts payable	–2,774	–50	
Increase (decrease) in other liabilities	1,393	–1,013	
Increase (decrease) in provisions	–1,047	661	
Decrease (increase) in other operating assets/liabilities (net)	292	–1,985	
Cash flow from operating activities	**23,625**	**16,860**	30/086
Payments made for investments in intangible assets and property, plant and equipment	–10,543	–8,881	10, 11/069, 070
Proceeds from the sale of intangible assets and property, plant and equipment	1,515	7,826	
Payments made for the acquisition of noncontrolling interests	–78	0	
Proceeds from the sale of investments	0	0	
Acquisitions of business units less acquired cash	0	0	
Disposal of business units less cash disposed of	0	–183	
Net change in financial receivables	–143	288	
Interest received	555	123	
Cash flow from investing activities	**–8,694**	**–826**	32/086
Addition (extinction) of amounts due to banks	7,675	1,300	
Addition (extinction) of other financial liabilities	–15,081	–1,072	
Proceeds from capital increase	0	0	
Interest paid	–2,901	–1,999	
Change in noncontrolling interests	0	0	
(Purchase)/sale of treasury stock	–126	0	
Dividend paid	–2,570	–2,578	
Dividend paid to noncontrolling interests	–85	–180	
Cash flow from financing activities	**–13,088**	**–4,528**	33/086
Exchange rate- and scope of consolidation-related changes in financial resources	328	516	
Change in cash and cash equivalents	**2,171**	**12,021**	34/087
Cash and cash equivalents at the beginning of the period	29,456	17,435	
Cash and cash equivalents at the end of the period	31,627	29,456	

Consolidated Statement of Changes in Equity*

Figures in € thousand	Subscribed Capital	Capital reserves	Retained earnings	Profit brought forward	Treasury stock at cost	Accumulated other comprehensive income: Cumulative translation adjustment	Accumulated other comprehensive income: Cash flow hedges and provisions for pensions	Equity attributable to the shareholders of Deufol SE	Noncontrolling equity interests	**Total equity**
Balance at Jan. 1, 2018	**43,774**	**107,240**	**10,204**	**−50,143**	**−536**	**−815**	**0**	**109,724**	**2,425**	**112,149**
Result for the period				4,025				4,025	−265	3,760
Other comprehensive income				−132		841	−262	447		447
Comprehensive income				**3,893**		**841**	**−262**	**4,472**	**−265**	**4,207**
Dividends				−2,578				−2,578	−180	−2,758
Balance at Dec. 31, 2018	**43,774**	**107,240**	**10,204**	**−48,828**	**−536**	**27**	**−262**	**111,619**	**1,980**	**113,599**
Result for the period				3,003				3,003	64	3,067
Other comprehensive income						409	84	493		493
Comprehensive income				**3,003**		**409**	**84**	**3,496**	**64**	**3,560**
Addition to retained earnings			1,500	−1,500				0		0
Dividends				−2,570				−2,570	−85	−2,655
Capital transactions resulting in change to shareholding interest			−339	183				−156	−199	−355
Purchase/sale of treasury stock		89			61			150		150
Other changes			244					244		244
Balance at Dec. 31, 2019	**43,774**	**107,329**	**11,609**	**−49,712**	**−475**	**436**	**−178**	**112,783**	**1,760**	**114,543**

* Cf. Notes (20) to (24)

Notes to the Consolidated Financial Statements

For the fiscal year from January 1, 2019 to December 31, 2019

General Information

Deufol SE is domiciled in Hofheim am Taunus and has been entered in the Frankfurt am Main commercial register under the number HRB 95470.

Deufol is a global premium service provider in the field of packaging and supplementary services. Please see the disclosures in the segment reporting for further details.

The address of the Company's registered office is Johannes-Gutenberg-Strasse 3–5, 65719 Hofheim am Taunus, Germany. Lion's Place GmbH is the parent company which prepares the consolidated balance sheet for the largest group of companies.

The Company's managing directors approved the IFRS consolidated financial statements on April 27, 2020 so that they could then be forwarded to the Administrative Board.

Basis of Preparation

Deufol SE prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as mandatorily applicable in the European Union. In addition, the provisions of section 315 e of the German Commercial Code were complied with and applied in the preparation of the consolidated financial statements. All IFRS (IFRS, IAS, IFRIC, SIC) as adopted by the European Union and mandatorily applicable as of the balance sheet date were applied. In principle, the consolidated financial statements are prepared using the historical-cost concept. This excludes derivative financial instruments as well as investment property, which are measured at fair value. This likewise excludes noncurrent assets held for sale which are to be reported at their lower fair value rather than their carrying amount.

Consolidation

All subsidiaries over which Deufol SE has legal or effective control are included in the consolidated financial statements. In addition to Deufol SE, the consolidated financial statements include 17 (previous year: 18) fully consolidated subsidiaries in Germany and 29 (previous year: 27) in other countries (hereinafter referred to as the "Deufol Group" or the "Group").

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the noncontrolling interests, even if this results in the noncontrolling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (incl. goodwill), liabilities, noncontrolling interests and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Joint ventures are included in the consolidated financial statements using the equity method in accordance with IFRS 11 in conjunction with IAS 28. Other significant equity investments are accounted for using the equity method if the Deufol Group does not hold a controlling interest but is able to exert a significant influence on the operating and financial policies of the investee. This is always the case if it holds between 20 % and 50 % of the voting rights ("associates").

On acquisition of an equity investment accounted for using the equity method, the difference between cost and proportionate equity is initially allocated to the assets and liabilities of this investment by making certain adjustments to the fair values. Any remaining excess of cost of acquisition over net assets acquired is recognized as goodwill and is not amortized.

If the recoverable amount of an investment in an associate (the higher of its value in use and its fair value less costs to sell) falls below the carrying amount, this will lead to a corresponding impairment. The impairment loss will be recognized in the income statement.

The annual financial statements of consolidated companies are prepared as of the reporting date of the consolidated financial statements.

Acquisition accounting is performed in accordance with the purchase method, whereby the cost of the acquired interests is eliminated against the parent's share of the revalued equity at the date of acquisition. Any resulting difference is allocated to the corresponding assets and liabilities of the subsidiary insofar as it is due to hidden reserves or hidden liabilities. Any remaining excess of cost of acquisition over net assets acquired is recognized as goodwill. In accordance with IFRS 3 (Business Combinations) in conjunction with IAS 36 (Impairment of Assets), goodwill is not amortized over the expected useful life, but instead tested at least annually to establish whether there is any need to recognize impairment losses.

Noncontrolling interests represent the share of net profit/loss and net assets that is not attributable to the Group. They are reported separately in the consolidated income statement and the consolidated balance sheet. They are reported on the face of the consolidated balance sheet as a separate component of equity from the equity attributable to the shareholders of the parent company.

Intercompany receivables and liabilities, revenue, expenses, income and profits are eliminated as part of consolidation.

Currency Translation

The consolidated financial statements are prepared in euros, the functional and presentation currency of the Deufol Group. Unless indicated otherwise, all amounts are given in thousands of euros.

Each company within the Deufol Group determines its own functional currency. In accordance with IAS 21, the annual financial statements of the foreign subsidiaries included in the consolidated financial statements whose functional currency is not the euro were converted into the Group currency euro on the balance sheet cut-off date on the basis of the functional-currency concept. Financial statements are translated using the modified-closing-rate method, i.e. assets and liabilities are translated from the functional currency to the reporting currency at the ECB's reference rates on the balance sheet date, while income statements are translated at the average rates for the year. Equity is translated at historical rates.

Differences resulting from the translation of assets and liabilities compared with the translation of the previous year and translation differences between the income statement and the balance sheet are taken directly to equity and are reported under "Other recognized income and expense". When a foreign operation is disposed of, the cumulative amount recognized in equity for this foreign operation is reversed to the income statement.

Foreign-currency transactions are translated at the spot rate of the foreign currency to the functional currency prevailing at the transaction date. Foreign-currency monetary assets and liabilities are translated at the rate on the balance sheet date. The resulting foreign exchange differences are recognized in profit or loss for the period, with the exception of foreign exchange differences resulting from foreign-currency loans insofar as the loans are used to hedge a net investment in a foreign operation. These are recognized directly in equity until the net investment is disposed of and only recognized in profit or loss on the date of disposal.

The exchange rates for the translation of key currencies that are not part of the European Monetary Union changed as follows:

Foreign currency	ECB reference rate as of the balance sheet date		Average rate for the year	
Per €	**2019**	2018	**2019**	2018
US dollar	1.1234	1.1450	1.1196	1.1815
Renminbi	7.8205	7.8751	7.7338	7.8073
Singapore dollar	1.5111	1.5591	1.5272	1.5928
Forint	330.53	—	325.30	—
Czech crown	25.408	25.724	25.670	25.643

Sales Recognition

Deufol applies the standard IFRS 15. This standard prescribes the amount and timing of revenue recognition and envisages a uniform, five-step revenue realization model. In principle, this must be applied for all customer contracts.

Sales are primarily generated from services, products and rental agreements. Revenue from contracts with customers will be recognized where the power of disposal over these goods or services is transferred to the customer. Revenue is recognized in line with the value of the consideration which the entity is expected to receive in exchange for these goods or services. Sales are recognized net of purchase price reductions such as cash and sales discounts and rebates.

A contract with a customer within the scope of IFRS 15 must be recognized in the balance sheet subject to the cumulative fulfillment of the following criteria:

- The parties have agreed to the contract and undertaken to fulfill their contractual obligations.
- The entity is able to determine for each party which rights this has in relation to the goods or services which are to be transferred.
- The entity is able to determine the payment terms for the goods or services which are to be transferred.
- The contract has economic substance.
- The entity is likely to receive the consideration to which it is entitled in return for the goods or services which are to be transferred to the customer.

Earnings per Share

Earnings per share (EPS) are calculated in accordance with IAS 33. Basic earnings per share are calculated by dividing the net profit/loss for the period attributable to the holders of common shares of the parent company by the weighted average number of common shares in circulation. Shares newly issued or repurchased during a period are included pro rata for the time they are in circulation. Diluted earnings per share are calculated by dividing the adjusted net profit/loss for the period attributable to the holders of common shares of the parent company by the weighted average number of common shares in circulation and the weighted average number of common shares that would be issued following the conversion of all potential common shares with a dilutive effect into common shares.

Intangible Assets and Goodwill

Purchased intangible assets with finite useful lives are recognized at cost and amortized on a straight-line basis over their economic lives. Proprietary software is capitalized at cost and undergoes straight-line amortization over its economic life. Capitalized software licenses and customer relationships are amortized on a straight-line basis over their expected useful life or over the term of the relevant agreement. The amortization recognized is allocated to the relevant functions in the income statement based on the asset's use. If there are indications of impairment and the recoverable amount is less than amortized cost, impairment losses are recognized on the intangible assets. If the reasons for impairment cease to apply, the impairment losses are reversed accordingly, up to the amortized cost. This does not apply to capitalized goodwill.

Goodwill is recognized in accordance with IFRS 3 "Business Combinations" in conjunction with IAS 36 "Impairment of Assets". These standards require goodwill to be tested annually for impairment rather than amortized.

The accounting principles for intangible assets are as follows:

	Customer relationships	Licenses and software
Amortization method used	Straight-line	Straight-line
Useful life	5 – 11 years	3 – 8 years
Remaining useful life	up to 9 years	up to 8 years

Property, Plant and Equipment

Property, plant and equipment are carried at cost less straight-line depreciation recognized over the economic life of the respective item.

Assets are removed from the balance sheet on disposal or scrapping; any disposal gains or losses are recognized in income.

The following useful lives are used for depreciation:

Useful lives of property, plant and equipment

Factory and office buildings	10–50 years
Operating and office equipment	3–10 years
Machinery and equipment	6–20 years
Vehicle fleet	5–7 years

If there are indications of impairment and the recoverable amount is less than amortized cost, impairment losses are recognized on the items of property, plant and equipment. If the reasons for impairment cease to apply, the impairment losses are reversed accordingly, up to the amortized cost. More complex items of property, plant and equipment consisting of clearly separable components with different useful lives are split into these components for the purposes of calculating depreciation. Depreciation is calculated using the useful lives of the individual components.

Investment Property

Investment properties as defined in IAS 40 are measured initially at cost, including transaction costs. Within the scope of subsequent measurement, IAS 40 offers the option of measurement at amortized cost or fair value as of the balance sheet date. Deufol exercises this option in relation to a measurement according to the fair-value model. Fair value reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are recognized through profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined through regular valuations in accordance with IAS 40.

Investment properties are derecognized either when they have been disposed of (i.e. at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized through profit or loss in the period of derecognition. The amount of consideration to be included in the income statement in case of the derecognition of investment property is calculated in accordance with the requirements for determining the transaction price in IFRS 15.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent measurement is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated in the “Property, plant and equipment” section up to the date of change in use.

Leases

In regard to the principles and methods applied for accounting for leases, we refer to the "New Accounting Standards" section at the end of this chapter.

Joint Ventures and Associates

Investments in joint ventures and associates are accounted for using the equity method. The cost of investments accounted for using the equity method is increased or decreased annually by changes in equity insofar as these are attributable to the Deufol Group.

Nonderivative Financial Assets

IFRS 9 prescribes a uniform model for the categorization of financial assets, which classifies financial assets in terms of three different categories as of their initial recognition:
- financial assets measured at amortized cost,
- financial assets measured at fair value through other comprehensive income, and
- financial assets measured at fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial assets' contractual cash flow characteristics and the Company's business model for managing them. The Company's management classifies financial assets on acquisition and checks their classification at each balance sheet date. All standard market purchases and sales of financial assets are recorded in the balance sheet on the transaction date, i.e. the date on which the Company entered into the obligation to purchase the asset.

For purposes of subsequent measurement, financial assets are classified in terms of four categories:
- financial assets measured at amortized cost (debt instruments),
- financial assets measured at fair value through OCI with reclassification of cumulative gains and losses (debt instruments),
- financial assets measured at fair value through OCI with no reclassification of cumulative gains and losses upon derecognition (equity instruments), and
- financial assets measured at fair value through profit or loss.

A financial asset (or a portion of a financial asset or a portion of a group of similar financial assets) will mainly be closed out subject to one of the following conditions:
- The contractual rights to receive cash flows resulting from the financial asset have expired.
- The Group has transferred to third parties its contractual rights to receive cash flows resulting from the financial asset or else entered into a contractual obligation to pay over the cash flow to a third party immediately, within the scope of a so-called "Pass-through Arrangement", thereby either (a) substantially transferring all risks and opportunities associated with ownership of the financial asset or (b) not having substantially transferred or retained all risks and opportunities associated with ownership of the financial asset, but having transferred the power of control over the asset.

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not measured at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For financial instruments for which there has not been a significant increase in credit risk since initial recognition, a loss allowance is recognized in the amount of the expected credit losses that result from default events that are possible within the next twelve months (12-month ECL). For financial instruments for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized in the amount of the credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience and has been adjusted for forward-looking factors specific to its debtors and the economic outline conditions. The need to recognize impairment will be reviewed in terms of ECLs on each balance sheet date and will be adjusted where necessary. The impairment rates will be determined on the basis of the level of delinquency for receivables.

In case of objective indications for trade receivables that amounts due will not all be received in accordance with the originally agreed invoice terms (e.g. the probability of an insolvency or significant financial difficulties for the debtor), an impairment will be recognized with use of a valuation account. Receivables are closed out once they are classified as uncollectible.

Derivative Financial Instruments

As a rule, derivative financial instruments are exclusively used by the Group to hedge currency risks. Derivatives which have not been included in hedge accounting, as hedging instruments, are reported in income as financial assets measured at fair value. In these cases, profits or losses from these financial assets are recognized in income.

Insofar as the hedge accounting rules pursuant to IFRS 9 are applied, the effective portion of the profit or loss resulting from a cash flow hedge is recorded directly in equity as a portion of the accumulated changes recognized directly in equity, including deferred taxes, while the ineffective portion is immediately recognized through profit or loss.

Derivatives are measured according to recognized methods and in consideration of current market parameters. The financial instruments in their entirety are explained in Note (38).

Cash Flow Hedges

The amounts recognized in equity will be reclassified in the income statement in the period in which the hedged transaction affects the period result, e.g. if hedged financial income or expenses are recognized or if an expected sale is executed.

Where a hedge leads to the reporting of a nonfinancial asset or a nonfinancial liability, the amounts recognized in equity will form part of the costs of acquisition at the time of the addition of the nonfinancial asset or nonfinancial liability.

Where the stipulated transaction or fixed obligation is no longer expected to be realized, the amounts previously recognized in equity will be reclassified to the income statement. In case of the expiry or sale, termination or exercise of the hedging tool without a replacement or the rollover of the hedging tool into another hedging tool, the amounts previously recognized in equity will remain a separate equity item until the envisaged transaction or fixed obligation has been realized.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Since January 1, 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (incl. the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument.
- The effect of credit risk does not dominate the value changes that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Cash and Cash Equivalents

Cash and cash equivalents on the face of the balance sheet comprise cash on hand, checks, bank balances and short-term deposits with an original maturity of up to three months.

Inventories

Inventories are carried at the lower of cost and net realizable value. As a rule, carrying amounts are calculated using the weighted-average-cost method; for certain inventories, the FIFO method is used. Cost comprises all production-related costs, calculated on the basis of normal employment. As well as direct costs (such as direct material and manufacturing costs), it also includes fixed and variable material and manufacturing overheads relating to the production process and appropriate portions of depreciation of manufacturing equipment.

Deferred Taxes

Deferred taxes are calculated using the balance sheet liability method in accordance with IAS 12. This standard requires deferred taxes to be recognized for all temporary differences between the tax bases of the individual companies and the carrying amounts according to IFRS, and on consolidation adjustments. Deferred tax assets are also recognized for future benefits expected to arise from tax loss carryforwards. However, deferred tax assets have only been recognized for accounting differences and for tax loss carryforwards to the extent that it is probable that the asset will be realized. Deferred tax assets are measured at the applicable national rates of income tax. In Germany, deferred tax assets were calculated using a tax rate of 29.90 % (previous year: 28.53 %). This includes corporation tax at 15 %, the solidarity surcharge of 5.5 % on the corporation tax and the average rate of trade tax within the Group.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when an asset is realized or a liability is settled. Deferred taxes for items recognized directly in equity will also be recognized directly in equity. Deferred tax liabilities are not recognized in case of taxable temporary differences associated with investments in subsidiaries and associates where the timeframe for the reversal of the temporary differences may be controlled and a reversal of the temporary differences is not probable in the foreseeable future.

Other Recognized Income and Expense

Items taken directly to equity are reported under this item, unless they result from capital transactions with shareholders, such as capital increases or dividend payments. This item includes the cumulative translation adjustment and unrealized gains or losses from the fair-value measurement of financial instruments, and derivatives used in cash flow hedges as well as actuarial gains and losses in connection with pension commitments. They are recognized including deferred taxes, where applicable.

Provisions for Pensions and Similar Obligations

The actuarial valuation of pension provisions for defined-benefit plans is based on the “projected-unit-credit method” prescribed in IAS 19. The interest element of pension expenses is shown as a finance cost. Actuarial gains and losses are recognized directly in other comprehensive income. The provisions for pensions result from the pension obligations less the market values of the plan assets.

In the case of defined-contribution pension plans (e.g. direct insurance schemes), the contributions payable are recognized immediately as an expense. Provisions are not recognized for defined-contribution plans, as in these cases the Group has no other obligation above and beyond its obligation to pay premiums.

Other Provisions

Other provisions are recognized where a present obligation exists to third parties as a result of a past event, an outflow of resources is expected and the amount can be reliably measured. They are uncertain obligations that are recognized in the amount of the best estimate. Provisions with a remaining maturity of more than one year are discounted at market interest rates reflecting the risk specific to the liability and the period of time until the settlement date.

Nonderivative Financial Liabilities and Other Liabilities

Initial Recognition and Measurement

Financial liabilities are classified as follows as of their initial recognition according to IFRS 9:

- financial liabilities measured at amortized cost and
- financial liabilities measured at fair value through profit or loss.

Subsequent Measurement

In principle, financial liabilities will be carried at amortized cost. This excludes financial liabilities which were allocated to the category “Financial liabilities measured at fair value through profit or loss” as of their initial recognition. Differences between historical cost and the repayment amount and transaction costs are accounted for using the effective-interest method. Other liabilities are carried at their nominal value or the repayment amount. Noncurrent other liabilities bearing no interest are accounted for at their present value.

Where an existing financial liability is replaced by another financial liability of the same lender subject to substantially different contract terms or where the terms of an existing liability are subject to substantial change, this replacement or change will be treated as a closing-out of the original liability and a valuation for a new liability. The difference between the respective carrying amounts will be recognized in income.

Derecognition

A financial liability will be closed out in case of the fulfillment, cancellation or expiry of the underlying obligation. Where an existing financial liability is replaced by another financial liability of the same lender subject to substantially different contract terms or where the terms of an existing liability are subject to substantial change, this replacement or change will be treated as a closing-out of the original liability and a valuation for a new liability. The difference between the respective carrying amounts will be recognized in income.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Treasury Stock

Where the Group acquires treasury stock, this is recognized at cost on acquisition and deducted from equity. The purchase, sale, issue or withdrawal of treasury stock is recognized directly in equity, in the reserves.

Cash Flow Statement

The cash flow statement is prepared in accordance with the provisions of IAS 7 and shows the changes in the Group's cash and cash equivalents over the course of the year under review as a result of cash inflows and outflows. A distinction is made between cash flows from operating activities, investing activities and financing activities. Cash flows from operating activities are presented using the indirect method.

Segment Reporting

Segment reporting is performed in accordance with IFRS 8 (Operating Segments). The segments correspond to those of the internal reporting structure. Segmentation aims to make transparent the assets and financial position and results of operations of the Group's individual activities and its various regions.

Borrowing Costs

All borrowing costs are expensed in the period in which they are incurred. The Group does not have any qualified assets requiring mandatory inclusion of borrowing costs in their historical costs.

Government Grants

Deufol has received government grants relating to its investment projects.

Pursuant to IAS 20, these grants may either be recognized as deferred income and amortized to income over the respective depreciation period (gross method) or, as applied by Deufol, they may be deducted from the carrying amount of the respective asset and recognized as income over the asset's useful life by means of a reduced depreciation amount (net method). IAS 20 also offers an option for performance-related grants to be recognized as other income in the income statement or to be deducted from the relevant expenses. Deufol applies the second option.

Government grants are recognized if there is reasonable assurance that the grants will be received and the Company meets the conditions attached to the grants.

Non-Current Assets Held for Sale

In these financial statements, Deufol has applied IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations".

This affects assets previously reported as property, plant and equipment which will be sold to a non-Group purchaser in accordance with an agreement which became legally effective in fiscal year 2019; the purchase agreement will be implemented in mid-2020.

In accordance with the IFRS 5 rules, noncurrent assets classified as held for sale are measured at the lower of their carrying amount and fair value less disposal costs. In the present case, they have been measured at their carrying amounts since the contractually agreed selling price significantly exceeds these.

We refer to Note (19).

Management Judgments and Key Sources of Estimation Uncertainty

The preparation of the consolidated financial statements in accordance with IFRS sometimes requires the managing directors to make estimates or assumptions that can affect the reported amounts of assets, liabilities and financial liabilities as of the balance sheet date, and the income and expenses for the reporting period. Actual amounts and changes may differ from these estimates and assumptions.

The significant judgments and estimates applied are described in the following section:
A significant portion of the valuation adjustment for doubtful accounts receivable relates to assessments and judgments regarding individual receivables which are based on the credit worthiness of the relevant customer, current economic trends and an analysis of historical losses of receivables outstanding on a portfolio basis.

Recognition and valuation of other provisions are based on an estimate of the probability of the future outflow of benefits, supplemented by past experience and the circumstances known at the balance sheet date. As such, the actual outflow of benefits may differ from the amount recognized under other provisions. Please see Note (27) for further disclosures.

Deferred tax assets from tax loss carryforwards are recognized on the basis of an estimate of the future recoverability of the corresponding tax benefits, i.e. if there is expected to be sufficient taxable income or reduced tax expense in future. The next five years is assumed as the assessment timeframe for this. The actual taxable income situation in future periods, and hence the extent to which tax loss carryforwards can actually be utilized, may differ from the estimate performed at the date on which the deferred taxes are recognized. Please see Note (07) for further disclosures.

Significant forward-looking estimates and assumptions are made in the context of the impairment tests performed on goodwill, because the discounted-cash-flow method used for these tests requires the calculation of future cash flows, an appropriate rate of interest and long-term future growth rates. Any change in these factors may affect the results of such impairment tests. Please see Note (12) for further disclosures.

The determination of the fair value of investment property includes future-oriented estimates regarding the trend for index-based rents in the contractually agreed tenancy period as well as the rents subsequently achievable on the market. Assumptions must also be made regarding the amount of the operating costs which cannot be apportioned to the tenant(s) as well as the disposal costs. The discounted-cash-flow method used for measurement also requires the application of an adequate interest rate. Please see Note (13) for further disclosures.

Valuation of property, plant and equipment and intangible assets with a limited useful life requires the use of estimates for calculation of the fair value at the time of acquisition, particularly for assets acquired in connection with a business combination. In addition, these assets' expected useful life is to be determined. Calculation of the fair values of the assets and their useful life and the impairment testing in case of indications of impairment are based on judgments made by the management. Please see Notes (11) and (12) for further disclosures.

Where an agreement regarding a business combination stipulates an adjustment of the costs of acquisition for the combination such as is dependent on future events, the amount of this adjustment will be incorporated in the costs of acquisition for the combination at the time of acquisition if the adjustment is probable and can be reliably measured.

Further judgments may apply in regard to the specification of the necessary parameters for balance-sheet recognition of leases under IFRS 16; in particular, this relates to the determination of the interest rates used for discounting. We refer to the "New Accounting Standards" section in this chapter as well as Note (10).

Measurement of noncurrent assets held for sale requires assumptions regarding their fair value as well as their likely disposal costs. Insofar as (pre-)contractual agreements have already been reached with the purchasers of the relevant assets regarding the purchase price, the management will determine fair value on this basis. Please see Note (19) for further disclosures.

Changed Accounting and Valuation Methods

In principle, the balancing and valuation methods used are the same as those used in the previous year, with the exception of the following IFRS standards and interpretations (New Accounting Standards) used for the first time in the fiscal year.

New Accounting Standards

Changes to Accounting for Leases (IFRS 16)

From January 1, 2019, IFRS 16 revises the accounting rules for leases and replaces the previous standard IAS 17 as well as the related interpretations.

The central goal of IFRS 16 is balance-sheet recognition of all leases. Accordingly, the previous classification in terms of finance and operating leases no longer applies for lessees. Instead, in principle they must recognize a right of use and a lease liability in their balance sheet for all leases. The lease liability is measured in the Deufol Group at the present value of the outstanding lease payments, while the right of use is measured at the amount of the lease liability plus direct costs. During the term of the lease, the right of use must be depreciated and the lease liability subsequently measured using the effective-interest-rate method, while taking the lease payments into consideration.

IFRS 16 permits practical expedients for short-term and low-value leases. Deufol has applied these practical expedients for short-term leases. Accordingly, no right of use and no liability are recognized for such leases. The related lease payments will continue to be recognized as expense in the income statement. As of first-time adoption, leases whose term ended before January 1, 2020 have been classified as short-term leases irrespective of the start date of the lease.

As of first-time adoption, existing agreements have not been reassessed in terms of whether or not these constitute a lease on the basis of the IFRS 16 criteria. Instead, agreements which were already classified as a lease under IAS 17 continued to be classified as a lease as of first-time adoption and to be treated as such.

As of January 1, 2019, the Deufol Group has for the first time accounted for leases in accordance with the IFRS 16 requirements, while applying the modified retrospective method (in accordance with IFRS 16.C5[b]). Prior-year periods have not been restated. According to this methodology, the lease liability must be recognized as of the changeover date at the present value of the outstanding lease payments. The present value calculation is based on incremental borrowing rates as of January 1, 2019. The average interest rate here in the Deufol Group was – depending on the maturity – 2.01 % or 2.35 % for real estate and 2.35 % for movables.

First-time recognition of the rights of use and lease liabilities as of January 1, 2019 has resulted in the following effects:

- In the opening balance sheet, rights of use have been recognized in the amount of € 35.3 million.
- The lease liabilities have been carried in the opening balance sheet in the amount of € 35.3 million and reported as noncurrent and current liabilities.
- First-time adoption has not had any effect on equity.

The difference between the expected payments for operating leases, discounted at the incremental borrowing rate as of December 31, 2018, in the amount of € 38.4 million, and the lease liabilities recognized in the opening balance sheet in the amount of € 35.3 million is as follows:

Figures in € thousand	2019
Obligations under operating leases reported as of Dec. 31, 2018	38,445
Obligations under operating leases discounted by the lessee's incremental borrowing rate as of Jan. 1, 2019	36,868
Plus liabilities under financial leases recognized as of Dec. 31, 2018	3,557
Less short-term leases	–5,077
Less leases of low-value lease assets	0
Lease liability recognized as of Jan. 1, 2019	35,348

Unlike in the case of the previous approach – whereby expenses for operating leases were entirely presented within the scope of the operating result – under IFRS 16 only depreciation of the rights of use is recognized in the operating result. The interest expenses resulting from the accumulation of lease liabilities are recognized in the financial result. In fiscal year 2019, this has resulted in a € 0.4 million improvement in the operating result.

An analogous effect is applicable in the cash flow statement. Adoption of IFRS 16 has generally resulted in an improvement in cash flow from operating activities due to lower payments relating to operations, while the repayment portion of the lease payments and the interest expense are recognized as components of the cash flow from financing activities.

Other Standards and Interpretations

With effect from January 1, 2019, clarifications to IAS 12, IAS 19, IAS 23, IFRS 3 and IFRS 11 have come into effect within the scope of the 2017 improvements to the International Financial Reporting Standards.

In addition, clarifying amendments were made to IAS 28 (Interests in Associates and Joint Ventures), effective from January 1, 2019. These require application of the impairment rules in IFRS 9 (Financial Instruments) for long-term financial instruments which constitute a net investment in an associate or a joint venture and which are not recognized in accordance with the equity method.

In addition, amendments have been made to IFRS 9 (Financial Instruments) with effect as of January 1, 2019.

Moreover, since January 1, 2019 IFRIC 23 has applied. This requires tax risks to be taken into consideration if it is probable that the tax authorities will not accept aspects of the tax calculation.

In addition, in IAS 19 (Employee Benefits) it has been clarified that, at the time of a plan event, the actuarial assumptions must be recalculated.

None of the above-mentioned amended rules have had any significant effect on the Deufol Group's net assets, financial position and results of operations.

Rules Which Have Already Been Adopted by the IASB But Are Not Yet Mandatory for the Fiscal Year

In its 2019 consolidated financial statements, Deufol has not applied the following accounting standards which have already been adopted by the IASB but were not yet mandatory for the past fiscal year. This is not expected to have any significant effect on the consolidated financial statements.

Standard/interpretation		Published by the IASB	Mandatory adoption	Endorsement by the EU
IFRS 3	Business Combinations: Definition of a Business	Oct. 22, 2018	Jan. 1, 2020	No
IFRS 17	Insurance Contracts	May 18, 2017	Jan. 1, 2022	No
IAS 1 and IAS 8	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material	Oct. 31, 2018	Jan. 1, 2020	Yes
IAS 1	Classification of Liabilities	Jan. 23, 2020	Jan. 1, 2022	No

Scope of Consolidation

Consolidated Companies

In addition to Deufol SE, the group of fully consolidated companies includes all major subsidiaries and subgroups over which Deufol SE has legal or effective control.

	Dec. 31, 2018	Additions	Disposals	Dec. 31, 2019
Consolidated subsidiaries	45	3	2	46
thereof in Germany	18	0	1	17
thereof abroad	27	3	1	29
Companies valued using the equity method	7	0	2	5
thereof in Germany	4	0	1	3
thereof abroad	3	0	1	2
Total	**52**	**3**	**4**	**51**

The following table shows the companies fully consolidated as of December 31, 2019:

Companies fully consolidated as of Dec. 31, 2019

	Country	Equity interest (%)
Deufol Services & IT GmbH, Hofheim am Taunus	Germany	100.0
Deufol Airport Services GmbH, Hofheim am Taunus	Germany	88.0
Deufol time solutions GmbH, Hofheim am Taunus	Germany	100.0
DRELU Holzverarbeitung GmbH, Troisdorf	Germany	100.0
Deufol Real Estate GmbH (previously Deufol München GmbH), Hofheim am Taunus (incl. subsidiary)	Germany	100.0
Deufol Hungary Real Estate Kft, Budapest	Hungary	100.0
Deufol Nürnberg GmbH, Nuremberg (incl. subsidiaries)	Germany	100.0
Deufol Südwest GmbH, Frankenthal	Germany	100.0
Deufol Frankfurt GmbH, Frankfurt am Main	Germany	100.0
Deufol West GmbH, Mülheim an der Ruhr	Germany	100.0
Deufol Nord GmbH, Peine	Germany	100.0
Deufol Bochum GmbH, Bochum	Germany	100.0
Deufol Süd GmbH, Neutraubling	Germany	100.0
DTG Verpackungslogistik GmbH, Fellbach	Germany	51.0
Deufol Remscheid GmbH, Remscheid	Germany	100.0
Deufol Berlin GmbH, Berlin (incl. subsidiary)	Germany	100.0
Deufol Hamburg GmbH, Hamburg	Germany	100.0
Deufol Austria Management GmbH, Ramsau (incl. subsidiaries)	Austria	70.0
Packing Center Terminal Graz Süd GmbH, Werndorf	Austria	70.0
Rieder Kistenproduktion Gesellschaft m.b.H., Ramsau	Austria	70.0
Deufol Austria Pack Center Solutions GmbH, Bruck a.d. Leitha	Austria	70.0
Deufol Austria Supply Chain Solutions GmbH, St. Pölten	Austria	70.0
Deufol Česká republika a.s., Brno	Czech Republic	100.0
Deufol Slovensko s.r.o., Krušovce	Slovak Republic	100.0
Deufol (Suzhou) Packaging Co. LTD, Suzhou	China	100.0

Companies fully consolidated as of Dec. 31, 2019

	Country	Equity interest (%)
Deufol North America Inc., Sunman, Indiana (incl. subsidiaries)	USA	100.0
Deufol Sunman LLC., Sunman, Indiana	USA	100.0
Deufol Charlotte LLC., Charlotte, North Carolina	USA	100.0
Deufol Worldwide Packaging Inc., Sunman, Indiana	USA	100.0
Deufol België NV, Tienen (incl. subsidiaries)	Belgium	100.0
Deufol Technics NV, Houthalen	Belgium	100.0
Deufol Waremme S. A., Waremme	Belgium	100.0
Deufol Waremme Operations S. A., Waremme	Belgium	100.0
Manamer NV, Antwerp (incl. subsidiary)	Belgium	100.0
Deufol Belgium Real Estate NV, Lier	Belgium	100.0
Deufol Lier NV, Lier	Belgium	100.0
Deufol Port of Antwerp NV, Antwerp	Belgium	100.0
Deufol Rhein-Main GmbH, Butzbach	Germany	100.0
Deufol Paris SAS, Mitry Mory	France	100.0
Deufol St. Nabord SAS, Saint Nabord (incl. subsidiary)	France	70.0
SCI Immo DLS, Saint Nabord	France	70.0
Deufol Immobilien CZ s. r. o., Brno	Czech Republic	100.0
Deufol CZ Production s. r. o., Cheb	Czech Republic	100.0
Deufol Italia S. p. A., Fagnano Olona	Italy	100.0
Deufol Hungary Kft, Budapest	Hungary	100.0
Deufol South East Asia PTE. LTD., Singapore	Singapore	100.0

Investments Accounted for Using the Equity Method

The following companies were included in the consolidated financial statements using the equity method:

Companies accounted for using the equity method as of Dec. 31, 2019

	Country	Equity interest (%)*
SIV Siegerländer Industrieverpackungs GmbH, Kreuztal	Germany	50.0
Deutsche Tailleur Bielefeld GmbH & Co. KG, Bielefeld	Germany	30.0
Mantel Industrieverpackung GmbH, Stockstadt	Germany	50.0
Deufol Meilink Asia Pacific PTE. LTD., Singapore	Singapore	50.0
Deufol Meilink (Yantai) Packaging Co. LTD, Yantai	China	50.0

* Attributable to the relevant parent

Deufol Meilink GmbH and Seaworthy Packaging Solutions Co. Ltd., Taichang / China, were liquidated during fiscal year 2019.

Information in Accordance with Section 313 (2) No. 4 of the German Commercial Code

Deufol SE holds at least 20 % of the shares in the following companies:

Company's name and registered office	Country	Equity interest (%)	Equity in € thousand	Result for the fiscal year in € thousand
Deutsche Tailleur Bielefeld Beteiligungs GmbH, Bielefeld	Germany	30.00	78	3

Acquisitions and Newly Established Companies

In April 2019, Deufol SE established Deufol Hungary Kft, Budapest, Hungary. Since this time, this company has been fully consolidated and has share capital with a value of € 100 thousand. Deufol SE is the sole shareholder. As well as the production of packaging materials, the company's main business activities are packaging activities and related logistics services.

Deufol Hungary Real Estate Kft, Budapest, Hungary, was likewise established in April 2019, with share capital of € 250 thousand which is held in full by Deufol Real Estate GmbH, Hofheim am Taunus, as of the balance sheet date. It too has been fully consolidated since April 2019. The company's main business activities are the leasing and management of its own real property as well as rented real property.

With effect as of June 12, 2019, Deufol België N. V. acquired the outstanding shares (1.25 %) in Deufol Waremme S. A., which had previously been held by a non-Group third party, for a purchase price of € 78 thousand.

In July 2019, Deufol Waremme Operations S. A., Waremme, Belgium, was established within the scope of a split-off from Deufol Waremme S. A. Some of the business activities of Deufol Waremme S. A. were transferred to Deufol Waremme Operations S. A., whose share capital amounts to € 100 thousand. Deufol België N. V. is the sole shareholder in Deufol Waremme Operations S. A. Deufol Waremme Operations S. A. has been fully consolidated since July 2019.

Under a share purchase agreement of October 17, 2019, Deufol SE acquired the outstanding shares (22.4 %) in DRELU Holzverarbeitung GmbH for a purchase price of € 1.

Under an agreement dated December 23, 2019 and effective as of the same date, Deufol SA acquired a further 10 % interest in Deufol Austria Management GmbH, which was already fully consolidated. Deufol Nürnberg GmbH continues to hold the Group's existing 60 % shareholding interest. By way of consideration, Deufol SE transferred 263,600 of its treasury shares to the vendor; a cash component was not agreed.

Mergers

IAD Industrieanlagen-Dienst GmbH, Munich, was merged with Deufol Real Estate GmbH (previously Deufol München GmbH), Hofheim am Taunus, with retrospective effect as of January 1, 2019.

In addition, Novaedes International N. V. was merged with Deufol België N. V. with retrospective effect as of July 1, 2019.

Neither of these transactions had any impact in relation to the Group.

Consolidated Income Statement Disclosures

01 Sales

Sales mainly result from the provision of services and, to a lesser extent, from rents. Sales include rental income from investment properties in the amount of € 986 thousand (previous year: € 389 thousand). In respect of further comments on sales, we refer to the segment reporting on pages ▶ 095 ff.

02 Other Operating Income

The following table shows the breakdown of other operating income:

Figures in € thousand	2019	2018
Release of provisions and liabilities	1,664	1,519
Release of valuation adjustments on receivables	2,286	75
Income from the fair-value adjustment of investment property	2,852	8,157
Insurance compensation and other indemnification	2,989	1,549
Reimbursements of ancillary costs	0	116
Income from disposal of fixed assets	249	1,145
Income from deconsolidation	0	193
Exchange-rate gains	545	849
Income from out-of-court settlements and court rulings	0	1,577
Other	2,526	1,706
Total	**13,111**	**16,886**

03 Cost of Materials

The cost of materials includes the following expenses:

Figures in € thousand	2019	2018
Expenses for raw materials, consumables and supplies	56,049	64,263
Cost of purchased services	43,240	43,154
Total	**99,289**	**107,417**

04 Personnel Costs

The personnel costs include the following expenses:

Figures in € thousand	2019	2018
Wages and salaries	70,417	76,972
Social security contributions and employee benefits	20,065	21,368
Total	**90,482**	**98,340**

Number of employees by region:

Number of employees by region	2019	2018
Germany	1,415	1,457
Rest of Europe	647	645
USA/Rest of the World	123	245
Group employees	**2,185**	**2,347**

On average, the Group had 2,185 employees in 2019, of whom 651 were office employees and 1,534 industrial employees. The holding had 82 employees on average (previous year: 78). As of the reporting date December 31, 2019, the Group had 2,170 employees (previous year: 2,323).

05 Other Operating Expenses

The following table shows the breakdown of other operating expenses:

Figures in € thousand	2019	2018
Rental and lease expenses	7,341	22,286
Space costs	6,209	6,641
Maintenance costs	2,576	2,850
Legal and consulting costs	3,880	4,947
Insurance premiums	2,389	2,105
IT and communications costs	2,558	2,545
Vehicle fleet costs	3,646	3,459
Expenses for loss or damage incurred	1,930	2,153
Expenses for tools and fuel	433	507
Personnel expenses	961	921
Travel expenses and advertising costs	2,044	2,138
Losses on disposal of fixed assets	28	26
Currency losses	581	308
Valuation adjustments and losses on receivables	3,173	3,478
Other	5,162	4,022
Total	**42,911**	**58,384**

In fiscal year 2019, government grants of approx. € 74 thousand were received in connection with the establishment of our new plant in Hungary, to cover expenses incurred, which were deducted from other operating expenses.

The Group auditor's overall fees for the fiscal year amounted to € 187 thousand (previous year: € 185 thousand) for audits of financial statements, € 147 thousand (previous year: € 118 thousand) for tax consulting services and € 24 thousand (previous year: € 17 thousand) for other services.

06 Financial Result

The financial result can be broken down as follows:

Figures in € thousand	2019	2018
Financial income	**555**	**123**
Other interest and similar income	555	109
from finance leases	0	14
Finance costs	**−2,900**	**−1,999**
from financial liabilities	−1,730	−1,624
from finance leases	−845	−157
Accumulation of liabilities and provisions	−187	−221
Other interest and similar expenses	−138	3
Shares of profits of companies accounted for using the equity method	**111**	**192**
Other financial result	**52**	**−24**
Total	**−2,182**	**−1,708**

07 Tax Proceeds/ Expenses

The Group’s income taxes can be broken down as follows:

Figures in € thousand	2019	2018
Effective income tax expense	**428**	**1,894**
Germany	116	250
Rest of the World	312	1,644
Deferred income taxes due to the occurrence or reversal of temporary differences	**523**	**2,449**
Germany	−192	1,393
Rest of the World	715	1,056
Total	**951**	**4,343**

Deferred tax expenses/proceeds are as follows:

Figures in € thousand	2019	2018
– Recognition of/+ write-down on loss carryforwards	−682	352
Valuation of property, plant and equipment	683	1,947
Valuation of financial instruments	−65	0
Valuation of clientele	−192	−434
Valuation of current assets	563	−562
Finance leasing	76	1,549
Other	140	−403
Total	**523**	**2,449**

As of December 31, 2019, deferred taxes were calculated for German companies with an overall tax rate of 29.90 % (previous year: 28.53 %). The relevant national tax rate applies for the deferred taxes of companies outside Germany.

The following table shows the reconciliation between the expected and reported income tax expense for the Group, subject to the 29.90 % (previous year: 28.53 %) income tax rate for Deufol SE:

Figures in € thousand	2019	2018
Earnings before taxes	4,018	8,103
Income tax rate of the Deufol Group as %	29.90	28.53
Expected tax expense	**1,201**	**2,312**
Effect of different tax rates	55	53
Unrecognized deferred tax assets on loss carryforwards	0	325
Use of previously unconsidered tax losses	−806	−867
Write-down on loss carryforwards recognized to date	711	2,439
Effect of tax-exempt income	−558	−417
Effect of expenses not deductible for tax purposes	525	492
Prior-period tax effects	−240	−38
Other	63	44
Effects of tax-rate changes	0	0
Income taxes	**951**	**4,343**
Effective tax rate (%)	**23.67**	**53.59**

Deferred tax assets can be broken down as follows:

Figures in € thousand	2019	2018
Tax loss carryforwards	7,153	6,046
Supplementary capital for tax purposes	26	36
Clientele	291	268
Property, plant and equipment	917	1,275
Current assets	0	562
Provisions for pensions	66	39
Other	659	896
Deferred tax assets	**9,112**	**9,122**
Offset against deferred tax liabilities	0	0
Total	**9,112**	**9,122**

Of the deferred tax assets, € 4,842 thousand (previous year: € 4,754 thousand) relates to domestic Group companies. Domestic tax loss carryforwards may be carried forward for an unlimited duration, but domestic earnings are subject to a minimum level of taxation. As of December 31, 2019, corporate income tax loss carryforwards amounted to € 50.1 million (previous year: € 52.2 million). Of this amount, € 50.1 million (previous year: € 52.2 million) may be carried forward for an unlimited duration. The trade tax loss carryforwards of German Group companies amount to € 39.3 million (previous year: € 41.9 million). Temporary differences relating to shares in subsidiaries for which no deferred taxes have been shown in the balance sheet total € 23.9 million (previous year: € 23.3 million).

Deferred tax liabilities can be broken down as follows:

Figures in € thousand	2019	2018
Property, plant and equipment	5,178	4,765
Leases	874	798
Clientele	813	987
Other	351	347
Deferred tax liabilities	**7,216**	**6,897**
Offset against deferred tax assets	0	0
Total	**7,216**	**6,897**

08 Profit/Loss Attributable to Noncontrolling Interests

The consolidated net profit attributable to noncontrolling interests primarily consists of profit shares attributable to companies in the Deufol Nürnberg Group as well as the Deufol België Group.

09 Earnings per Share

Income Figures in € thousand	2019	2018
Result attributable to the holders of Deufol SE common stock	3,003	4,025
Shares in circulation Figures in units		
Weighted average number of shares	42,889,068	42,960,880
Earnings per share Figures in €		
Basic and diluted earnings per share, based on the income (loss) attributable to common shareholders of Deufol SE	0.070	0.094

Consolidated Balance Sheet Disclosures

10 Leases

The changeover effects resulting from the revised accounting rules for leases as of the first-time adoption of IFRS 16 and the use of options are outlined in the “New Accounting Standards” section of the “Basis of Preparation” chapter of the Notes.

As a lessee, Deufol has mainly entered into agreements for warehouse and office space, vehicles and operating and office equipment. Leases are individually negotiated and their provisions vary in relation to extension, termination or purchase options, etc. In addition, in several cases price-adjustment clauses apply which are based on standard indexes.

Leases of land and buildings have an average term of 9 nine years. As of the balance sheet date, their average remaining term is slightly less than three years. On the whole, leases for assets other than land and buildings have an average term of three years.

The following rights of use for leasing assets have been reported in property, plant and equipment:

Figures in € thousand	Dec. 31, 2019
Land, land rights and buildings	25,736
Technical equipment and machinery	257
Operating and office equipment	4,315
Total	**30,308**

In fiscal year 2019, additions of rights of use for leasing assets were recognized in the amount of € 8,770 thousand.

Depreciation of rights of use for leasing assets in fiscal year 2019 relates to the following groups of assets:

Figures in € thousand	2019
Land, land rights and buildings	11,222
Technical equipment and machinery	97
Operating and office equipment	3,717
Total	**15,036**

Moreover, the following items were recognized in the income statement in fiscal year 2019 in connection with leases for which Deufol is a lessee:

Figures in € thousand	Dec. 31, 2019
Interest expenses for leases	−845
Expenses for short-term leases with a term of more than one month and not more than 12 months	−7,121
Expenses for leases of low-value assets (excl. short-term leases)	0
Expenses for variable lease payments not included in the measurement of the lease liability	−220
Income from subleasing of rights of use for leasing assets	68
Gains and losses from sale and lease-back transactions	0
Total	−8,118

Cash outflows associated with Deufol's activities as a lessee amounted to € 27,985 thousand in 2019.

As of December 31, 2019, obligations not reported in the balance sheet for short-term leases which had not yet begun as of the balance sheet date were of minor numerical significance. The same is true of leases already entered into as of the balance sheet date which will begin after December 31, 2019 and are not short-term leases.

The outstanding lease payments reported under current and noncurrent financial liabilities have the following maturities:

	2019				2018			
		thereof with a remaining maturity of				thereof with a remaining maturity of		
Figures in € thousand	Total	up to 1 year	1 to 5 years	over 5 years	Total	up to 1 year	1 to 5 years	over 5 years
Liabilities under financial leases	32,585	14,789	16,063	1,733	3,557	902	2,205	450

Expenses amounting to € 22,286 thousand were recognized in the previous year's consolidated income statement due to rental agreements and leases that did not qualify as finance leases under IFRS (Operating Leases) in the previous year in accordance with the previous IAS 17 accounting rules. As of December 31, 2018, the future (non-discounted) minimum lease payments under such non-terminable agreements amounted to a total of € 38,445 thousand, of which € 15,626 thousand with a remaining term of one year, € 20,914 thousand with a remaining term of between one year and five years and € 1,905 thousand with a remaining term of more than five years.

11 Property, Plant and Equipment

In respect of the leased assets included in property, plant and equipment, we refer to the previous section 10 "Leases".

In the past fiscal year, as in the previous year, no impairment was recognized on property, plant and equipment.

Due to their classification as noncurrent assets held for sale according to IFRS 5, several assets previously reported under land and buildings were reclassified accordingly; we refer to Note 19.

In fiscal year 2019, government grants of approx. € 55 thousand were received in connection with the establishment of our new plant in Hungary, half of which related to land and buildings and the other half to assets under construction. The respective amounts were deducted from the costs of acquisition.

12 Intangible Assets

Intangible assets primarily consist of the goodwill recognized on consolidating acquirees as well as acquired customer relationships.

The following table shows the breakdown of goodwill by segment:

Figures in € thousand	Germany	Rest of Europe	USA/Rest of the World	Total
Carrying amount as of Jan. 1, 2019	**52,571**	**18,440**	**0**	**71,011**
Additions	0	0	0	0
Disposals	0	0	0	0
Impairments	0	0	0	0
Currency translation adjustments	0	0	0	0
Carrying amount as of Dec. 31, 2019	**52,571**	**18,440**	**0**	**71,011**

In accordance with IAS 36 “Impairment of Assets”, goodwill should be tested for impairment at least once a year. In the course of impairment testing, the carrying amount of a cash-generating unit (CGU) is compared with its recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use.

In principle, the lowest level within the Group at which goodwill is monitored for internal management purposes is the level for operating segments as defined by IFRS 8. Accordingly, goodwill is allocated to the operating segments Germany, Rest of Europe and USA/Rest of the World. A full valuation adjustment has been implemented on the goodwill allocated to the USA/Rest of the World segment. In the Rest of Europe segment, the management monitors goodwill by distinguishing between three regionally classified cash-generating units. The recoverable amount corresponds to the value in use and was calculated as the present value of future cash flows.

Future cash flows are determined on the basis of the multiple-year financial plans of the companies included in the scope of consolidation. The concrete planning period in each case is three years. The forecasts contained therein are based on past experience and the expected future segment and market development.

The discount rates before taxes are calculated on the basis of market data. For the Group’s individual CGUs they are between 5.73 % and 6.93 % (previous year: 5.58 % to 8.89 %). The terminal growth rate (1.0 %, previous year: 1.0 %) does not exceed the long-term growth rates for the industry and region in which the cash-generating units operate.

Impairment testing did not identify the need to recognize impairment losses for the CGUs defined above. A modification of the basic assumptions regarding an increase in the discount interest rate by 1.0 percentage points while maintaining the long-term growth rate of 1.0 % would not lead to any need to recognize impairment losses.

In the other intangible assets item, in the previous year impairment was recognized on a capitalized customer list in the amount of € 869 thousand. This was recognized due to a volume of sales which fell short of the expectations for the business relationships covered by the customer list and exclusively relates to the USA/Rest of the World segment.

13 Investment Property

The “Investment property” item includes existing properties which are neither owner-occupied nor held for sale and are instead held in order to generate rental income as well as increases in value.

In the previous year, properties were classified in the “Investment property” category for the first time; they have been subsequently measured at their fair value. Changes in relation to the current carrying amount before subsequent measurement (previous year’s fair value plus subsequent/additional costs less subsequent purchase price reductions) have been recognized through profit or loss in other operating income.

The balance sheet item for the Group’s investment property relates to a commercial property in the Eurozone which was acquired in fiscal year 2018 following the expiry of a finance lease contract, and which was entered in the accounts at cost. Initial measurement at fair value as of the reporting date in the previous year resulted in a gain of €8.2 million. The measurement made in the year under review resulted in an adjustment in the fair value in the amount of €2.9 million which has been reported under other operating income.

Figures in € thousand	2019	2018
As at Jan. 1	**11,493**	**0**
Additions through acquisition	0	3,336
Ongoing production, subsequent purchase costs	0	0
Write-ups due to subsequent measurement at fair value	2,852	8,157
As at Dec. 31	**14,345**	**11,493**

The Group is not subject to any restrictions in terms of the disposability of investment properties or any contractual obligations to purchase, produce or develop investment properties.

The Group has done its own calculation of the fair value of this property as of December 31, 2019. The internationally recognized discounted-cash-flow method was applied, i.e. anticipation of the future cash flows, discounted to their present value on the balance sheet date. The fair value was determined on the basis of key non-observable input factors (Level 3). The cash flows were calculated according to the rent agreed with the tenant in the contract for the non-terminable basic tenancy period. Since this rent is subject to an index-based annual adjustment, the future development of the relevant index was estimated on the basis of the historical trend. The opinion prepared by an independent real estate expert was referred to in respect of the market rent achievable following this period. The disposal costs deductible from the total present values were also obtained from this opinion. The interest rate of 7.188% which was required in order to determine the present values of the cash flows was derived from the prime yield indicated in a study of the Belgian real estate market published in the autumn of 2019, to which a risk premium was added. With regard to the operating costs, in accordance with Annex 23 of the German Valuation Act (BewG) the total costs ratio was initially estimated in accordance with the rent income and, in a second step, then allocated to the tenant and the landlord.

14 Investments Accounted for Using the Equity Method

As of December 31, 2019, the carrying amount of the investments in associates accounted for using the equity method amounts to € 1,328 thousand (previous year: € 1,217 thousand).

The following table provides summary information for the companies accounted for using the equity method. The figures are for the Group's share in the associates:

Assets Figures in € thousand	Dec. 31, 2019	Dec. 31, 2018
Current assets	1,434	1,351
Noncurrent assets	801	828
Total assets	**2,235**	**2,179**
Equity and liabilities Figures in € thousand		
Debt	1,768	1,685
Equity	467	494
Total equity and liabilities	**2,235**	**2,179**
Total sales	4,633	5,575
Total expenses	−4,553	−5,354
Income	**80**	**221**

Unrecognized losses amount to € 32 thousand (previous year: € 8 thousand); cumulative unrecognized losses amount to € 130 thousand (previous year: € 98 thousand).

15 Other Receivables and Other Assets

The following table shows the breakdown of the "Other receivables and other assets" item:

	2019		2018	
Figures in € thousand	Total	Current	Total	Current
Value-added tax and other taxes receivable	218	218	288	288
Deferred expenses	1,745	1,745	882	882
Guarantees	301	301	162	162
Receivables from related parties	349	349	365	365
Compensation	1,800	0	0	0
Insurance refunds	1,416	1,416	1,063	1,063
Receivables from employees/social security authorities	479	479	408	408
Foreign-currency swaps	56	56	0	0
Other	1,583	1,314	852	533
Total	**7,947**	**5,878**	**4,020**	**3,701**

Consolidated Statement of Changes in Assets in 2019

Figures in € thousand	Acquisition and production costs								
	Jan. 1, 2019	Currency differences	Additions	Additions through business combinations	Disposals [1]	Disposals due to company sales	Adjustment of the fair value	Reclassifications	**Dec. 31, 2019**
Property, plant and equipment									
Land, land rights and buildings	57,534	123	1,685	0	−8,343	0	0	1,983	52,982
Technical equipment and machinery	31,127	433	405	0	−16,658	0	0	0	15,307
Operating and office equipment	28,923	55	938	0	−2,675	0	0	10	27,251
Assets under construction	3,066	2	6,539	0	−324	0	0	−1,993	7,290
Leased assets	6,294	13	44,118	0	−674	0	0	0	49,751
Investment property	11,493	0	0	0	0	0	2,852	0	14,345
Total	**138,437**	**626**	**53,685**	**0**	**−28,674**	**0**	**2,852**	**0**	**166,926**
Intangible assets									
Patents, licenses, trademarks and similar rights and assets	18,522	100	74	0	−2,145	0	0	−5	16,546
Internally generated intangible assets	4,357	0	902	0	−33	0	0	5	5,231
Goodwill	72,055	353	0	0	0	0	0	0	72,408
Total	**94,934**	**453**	**976**	**0**	**−2,178**	**0**	**0**	**0**	**94,185**
Sum total	**233,371**	**1,079**	**54,661**	**0**	**−30,852**	**0**	**2,852**	**0**	**261,111**

1) Of the disposals made for the acquisition and production costs, an amount of € 6,079 thousand relates to land and buildings which have been reclassified in accordance with IFRS 5.

Depreciation, amortization and impairment								Net amounts	
Jan. 1, 2019	Currency differences	Additions	Disposals[2]	Disposals due to company sales	Reversals of impairment losses	Reclassifications	**Dec. 31, 2019**	Dec. 31, 2018	**Dec. 31, 2019**
19,683	64	2,278	−4,020	0	0	0	18,005	37,851	34,977
26,209	399	1,282	−16,111	0	0	0	11,779	4,918	3,528
24,885	53	1,398	−2,593	0	0	0	23,743	4,038	3,508
0	0	0	0	0	0	0	0	3,066	7,290
5,071	10	15,036	−674	0	0	0	19,443	1,223	30,308
0	0	0	0	0	0	0	0	11,493	14,345
75,848	**526**	**19,994**	**−23,398**	**0**	**0**	**0**	**72,970**	**62,589**	**93,956**
12,442	81	1,299	−2,062	0	37	0	11,797	6,080	4,749
1,853	0	735	−28	0	0	0	2,560	2,504	2,671
1,044	353	0	0	0	0	0	1,397	71,011	71,011
15,339	**434**	**2,034**	**−2,090**	**0**	**37**	**0**	**15,754**	**79,595**	**78,431**
91,187	**960**	**22,028**	**−25,488**	**0**	**37**	**0**	**88,724**	**142,184**	**172,387**

2) Of the disposals made for depreciation, amortization and impairment, an amount of € 2,009 thousand relates to land and buildings which have been reclassified in accordance with IFRS 5.

Consolidated Statement of Changes in Assets in 2018

Figures in € thousand	Acquisition and production costs								
	Jan. 1, 2018	Currency differences	Additions	Additions through business combinations	Disposals[1]	Disposals due to company sales	Adjustment of the fair value	Reclassifications	**Dec. 31, 2018**
Property, plant and equipment									
Land, land rights and buildings	66,208	256	1,892	0	−10,822	0	0	0	57,534
Technical equipment and machinery	44,513	807	543	0	−613	−14,141	0	18	31,127
Operating and office equipment	29,487	95	2,975	0	−708	−2,926	0	0	28,923
Assets under construction	979	2	2,110	0	−25	0	0	0	3,066
Leased assets	7,483	9	360	0	−86	−1,454	0	−18	6,294
Investment property	0	0	3,336	0	0	0	8,157	0	11,493
Total	**148,670**	**1,169**	**11,216**	**0**	**−12,254**	**(18,521)**	**8,157**	**0**	**138,437**
Intangible assets									
Patents, licenses, trademarks and similar rights and assets	18,154	201	289	0	−101	−21	0	0	18,522
Internally generated intangible assets	3,844	0	513	0	0	0	0	0	4,357
Goodwill	71,332	831	0	0	0	−108	0	0	72,055
Total	**93,330**	**1,032**	**802**	**0**	**−101**	**−129**	**0**	**0**	**94,934**
Sum total	**242,000**	**2,201**	**12,018**	**0**	**−12,355**	**−18,650**	**8,157**	**0**	**233,371**

Depreciation, amortization and impairment								Net amounts	
Jan. 1, 2018	Currency differences	Additions	Disposals	Disposals due to company sales	Reversals of impairment losses	Reclassifications	**Dec. 31, 2018**	Dec. 31, 2017	**Dec. 31, 2018**
21,914	192	2,215	−4,638	0	0	0	19,683	44,294	37,851
38,590	771	1,453	−526	−14,081	0	2	26,209	5,923	4,918
26,341	91	1,774	−422	−2,899	0	0	24,885	3,146	4,038
0	0	0	0	0	0	0	0	979	3,066
5,741	−1	639	−65	−1,241	0	−2	5,071	1,742	1,223
0	0	0	0	0	0	0	0	0	11,493
92,586	**1,053**	**6,081**	**−5,651**	**−18,221**	**0**	**0**	**75,848**	**56,084**	**62,589**
10,031	162	2,284	−33	−21	19	0	12,442	8,123	6,080
1,187	0	666	0	0	0	0	1,853	2,657	2,504
212	832	0	0	0	0	0	1,044	71,120	71,011
11,430	**994**	**2,950**	**−33**	**−21**	**19**	**0**	**15,339**	**81,900**	**79,595**
104,016	**2,047**	**9,031**	**−5,684**	**−18,242**	**19**	**0**	**91,187**	**137,984**	**142,184**

16 Inventories

The following table shows the breakdown of inventories:

Figures in € thousand	2019	2018
Raw materials, consumables and supplies	9,008	10,441
Work in progress	2,526	2,604
Finished products and merchandise	112	263
Total	**11,646**	**13,308**

17 Trade Receivables

Trade receivables are as follows:

Figures in € thousand	2019	2018
Trade receivables	32,097	36,670
Valuation adjustments	−2,891	−4,075
Trade receivables, net	**29,206**	**32,595**

Trade receivables from related parties amount to € 25 thousand (previous year: € 36 thousand).

As of December 31, 2019, the age structure of the trade receivables was as follows:

			Overdue, but not value-impaired				
Figures in € thousand	Total	Neither overdue nor value-impaired	<30 days	30–60 days	61–90 days	91–180 days	>180 days
2019	**29,206**	**19,913**	**3,734**	**1,677**	**1,177**	**1,221**	**1,484**
2018	32,595	16,417	7,249	2,477	1,610	2,031	2,811

The breakdown by impairment rates is as follows:

		Receivables not subject to specific valuation allowance, overdue						
Figures in € thousand	Not subject to specific valuation allowance, not overdue	<30 days	30–60 days	61–90 days	91–180 days	>180 days	Receivables subject to specific valuation allowance	Total
Gross carrying amount	19,645	3,684	1,654	1,161	1,205	1,464	3,284	**32,097**
Expected loss ratios	0–1 %	0–1 %	1–2 %	1–2 %	2–5 %	5–10 %	—	
Loss allowance	195	37	25	17	36	117	2,463	**2,891**

In respect of the receivables which are neither value-impaired nor overdue, as of the reporting date there are no indications that the debtors will be unable to meet their payment obligations.

The following table shows the development of valuation adjustments on trade receivables:

Figures in € thousand	2019	2018
Valuation adjustments at start of period	**4,075**	**2,702**
Currency differences	8	6
Changes to scope of consolidation	0	−50
Addition	497	1,743
Utilization	−1,203	−251
Reversal	−486	−75
Valuation adjustments at end of period	**2,891**	**4,075**

18 Cash and Cash Equivalents

The following table shows the breakdown of cash and cash equivalents:

Figures in € thousand	2019	2018
Cash on hand	47	52
Bank balances	31,580	29,404
Total	**31,627**	**29,456**

There are no restrictions on the amounts reported as cash.

19 Noncurrent Assets Held for Sale

In Belgium, Deufol has access to land on the basis of a license granted by the Belgian authorities. The buildings situated on this land are currently used for the operating activity of the Deufol Group.

Due to an contractual agreement with an external purchaser which was subject to the fulfillment of certain preconditions, Deufol has undertaken to demolish the buildings and to transfer this land in mid-2020. These preconditions were met in September 2019, so that the obligation to transfer the land in mid-2020 is now binding.

Since execution of the legally valid sale between the parties has now been scheduled for mid-2020 and will thus occur within a period of one year, the assets covered by the purchase agreement were reported in the balance sheet item “Noncurrent assets held for sale” as of the balance sheet date. This affects buildings previously recognized as property, plant and equipment, with a total carrying amount of € 4,070 thousand as of the date of reclassification.

In accordance with the IFRS 5 rules, noncurrent assets classified as held for sale are measured at the lower of their carrying amount and fair value less disposal costs. In the present case, they have continued to be measured at their carrying amounts, since the contractually agreed selling price significantly exceeds these.

In fiscal year 2020, the sale will give rise to a disposal gain in the single-digit million range.

20 Subscribed Capital

As of December 31, 2019, the Subscribed Capital is € 43,773,655 (previous year: € 43,773,655) and is divided up into the same number of no-par-value registered shares.

An amount of € 20,000,000 remained unchanged as Approved Capital as of December 31, 2019 for the issuance of new shares in return for cash contributions or contributions in kind (end of previous year: € 20,000,000). This is based upon the resolution passed by the Annual General Meeting on June 28, 2019 which authorizes the Company to increase the Company's share capital by up to € 20,000,000 in the period up to June 27, 2024.

In accordance with the resolution passed by the Annual General Meeting on June 28, 2019, the authorization resolved by the Annual General Meeting on July 4, 2014 and applicable until July 3, 2019 to issue conversion and/or option rights in the amount of € 20,000,000 was revoked. The Contingent Capital established for this purpose, which amounted to € 20,000,000 at the end of the previous year, was canceled and the relevant passage in the Articles of Association of Deufol SE was deleted without being replaced. Accordingly, as of December 31, 2019 no Contingent Capital was available.

In accordance with the resolution passed by the Annual General Meeting on June 28, 2017, the Company has been authorized to purchase up to 4,377,365 of its own shares in the period from June 28, 2017 to June 27, 2022; this corresponds to 10 % of the current share capital.

21 Capital Reserves

The capital reserves, which mainly consist of the premium resulting from the issue of shares plus payments by the shareholders, amount to € 107,329 thousand as of the end of 2019 (previous year: € 107,240 thousand). The € 89 thousand increase in the year under review has resulted from Deufol SE's acquisition of an equity investment for which the purchase price was paid by means of treasury stock and has been calculated on the basis of the difference between the price as of the transaction date and the weighted average price of the treasury shares provided.

22 Retained Earnings

At the end of 2019, retained earnings amount to € 11,609 thousand (previous year: € 10,204 thousand).

In fiscal year 2019, within the scope of the increase in the Group's stake in DRELU Holzverarbeitung GmbH, Troisdorf, which had already been fully consolidated, the premium paid on the pro rata value of the equity in the amount of € 146 thousand was deducted from retained earnings.

In addition, Deufol SA acquired a 10 % interest in Deufol Austria Management GmbH, which was already fully consolidated. Here too, the difference between the purchase price and the pro rata equity for the relevant subgroup in the amount of € 311 thousand was deducted from retained earnings.

Within the scope of the acquisition of the still outstanding noncontrolling interests in Deufol Waremme S. A., which was already fully consolidated, a difference of € 118 thousand arose between the purchase price and the company's pro rata equity. This was added to retained earnings.

A further increase in retained earnings in the amount of € 244 thousand resulted due to adjustment effects recognized directly in equity.

In addition, an amount of € 1,500 thousand was transferred to retained earnings; we refer to the following comments regarding the appropriation of net profit.

23 Treasury Stock

Pursuant to the resolution passed by the Annual General Meeting on June 30, 2016, in accordance with section 71 (1) no. 8 AktG, Deufol purchased 812,775 treasury shares in fiscal year 2016. This treasury stock was repurchased for € 536 thousand, amounting to an average cost of € 0.66 per share.

Moreover, in fiscal year 2019 120,000 treasury shares were purchased in accordance with section 71 (1) no. 2 AktG. This treasury stock was repurchased for a total of € 126 thousand, amounting to an average cost of € 1.05 per share.

Within the scope of the acquisition of an equity investment by Deufol SE in December 2019, the purchase price was settled in the form of 263,600 treasury shares whose weighted average price amounted to € 0.71 per share.

24 Noncontrolling Equity Interests

The noncontrolling equity interests primarily consist of shares held by external third parties in Deufol Nürnberg Group and Deufol België Group companies. The development of these shares is outlined in detail in the statement of changes in equity.

Appropriation of Net Profit

In fiscal year 2019, Deufol SE distributed a dividend of € 0.06 per share; this corresponds to a dividend amount of € 2,570 thousand.

As of the preparation of the single-entity financial statements of Deufol SE as of March 31, 2020, under section 58 AktG the managing directors made an addition to retained earnings in the amount of € 1,500 thousand, out of the Company's net profit for the year.

A proposal will be made to the Annual General Meeting that the remaining net income of Deufol SE for fiscal year 2019 in the amount of € 13,757 thousand (calculated in accordance with the principles of the German Commercial Code – HGB) be carried forward to new account.

25 Financial Liabilities

The following table summarizes the financial liabilities of the Deufol Group:

	2019				2018			
		thereof with a remaining maturity of				thereof with a remaining maturity of		
Figures in € thousand	Total	up to 1 year	1 to 5 years	over 5 years	Total	up to 1 year	1 to 5 years	over 5 years
Amounts due to banks	67,693	21,867	35,491	10,335	59,965	45,226	8,587	6,152
Liabilities under financial leases	32,585	14,789	16,063	1,733	3,557	902	2,205	450
Other financial liabilities	288	131	157	0	274	40	234	0
Financial liabilities	**100,566**	**36,787**	**51,711**	**12,068**	**63,796**	**46,168**	**11,026**	**6,602**

Property, plant and equipment in the amount of € 45.1 million (previous year: € 33.4 million) and fully consolidated interests in the amount of € 4.7 million (previous year: € 12.8 million) have been pledged as collateral to secure liabilities to banks and other financial liabilities.

Liabilities to Banks

Short-term and medium-term credit lines of € 39.4 million are available to the Group at various banks (previous year: € 48.4 million). As of December 31, 2019, € 33.0 million (previous year: € 36.0 million) of this had been utilized. The financial liabilities carried in the balance sheet are subject to standard market interest rate risks. In fiscal year 2019, the average weighted interest rate for short-term loans was 2.32 % (previous year: 2.28 %).

The following table shows the Group's material short-, medium- and long-term liabilities to banks:

	2019				2018			
	Currency	Net carrying amount (€ thousand)	Remaining maturity (years)	Effective interest rate (%)	Currency	Net carrying amount (€ thousand)	Remaining maturity (years)	Effective interest rate (%)
Loans	€	2,380	6	2.62	€	2,805	7	2.62
Loans	€	5,570	4	variable*	€	5,500	1	variable*
Loans	€	1,018	5	3.05	€	1,216	6	3.05
Loans	€	667	4	3.95	€	850	5	3.95
Loans	€	14,291	5	1.80				
Loans	€	1,275	5	2.41	€	1,521	6	2.41
Loans	€	3,500	7	1.30	€	4,054	8	1.30
Loans	€	4,134	9	1.95	€	4,698	10	1.95
Loans	€	805	12	3.25	€	859	13	3.25

* 3-month EURIBOR +2.35 % (previous year: 3-month EURIBOR +2.25 %)

There are also further noncurrent amounts due to banks for financing of property, plant and equipment, particularly technical equipment and machinery, in the amount of € 1.1 million (previous year: € 1.3 million).

Liabilities under Financial Leases

The increase in lease liabilities in 2019 is mainly attributable to the revised accounting for leases due to the first-time adoption of IFRS 16. We refer to the summarized information regarding leases provided in section 10 of this chapter.

26 Provisions for Pensions

The Deufol Group has both defined-contribution and defined-benefit pension schemes in place. The defined-benefit pension plans include pension obligations as well as noncurrent-benefit entitlements (provisions for other post-employment benefits). Noncurrent-benefit entitlements are recognized in the balance sheet at the Group's Italian and Austrian subsidiaries. The recognized provisions can be broken down as follows:

Figures in € thousand	2019	2018
Provisions for pensions and other post-employment benefits	844	815
Liabilities to pension fund	2,759	2,847
Total	**3,603**	**3,662**

The pension obligations (actuarial present value of benefit entitlements or defined-benefit obligation) were calculated using actuarial methods. The calculations were based on the following parameters:

	Germany		Austria		Italy	
Figures in %	2019	2018	2019	2018	2019	2018
Discount rate	1.0	2.0	1.8	1.8	0.4	1.1
Turnover rate*	0.0	0.0	0.0	0.0	0.0	0.0
Index-linked salary increase	—	—	0.0	0.0	1.2	1.5
Index-linked pension increase	2.0	2.0	2.0	2.0	2.4	2.6

* No turnover is assumed, since all benefits are vested.

Pension obligations are measured in accordance with the provisions of IAS 19.

The following table indicates the changes in the present value of the total obligation and the net pension commitment shown in the balance sheet:

Figures in € thousand	2019	2018
Present value of the obligation at Jan. 1	815	610
Current service cost	9	63
Interest cost	25	78
Pension payments	−80	−119
Actuarial losses	106	132
Change in the market value of the plan assets	−8	−46
Business combinations, disposals and other items	−23	97
Present value of the obligation/net pension commitment on Dec. 31	**844**	**815**

The market value of the plan assets which relates to German pension obligations amounted to € 341 thousand as of December 31, 2019 (previous year: € 354 thousand).

Pension expense in the fiscal year can be broken down as follows:

Figures in € thousand	2019	2018
Current service cost	9	63
Interest cost	25	78
Total pension expense	**34**	**141**

The expected pension expense for 2020 is € 28 thousand.

In the case of defined-contribution plans, the Deufol Group does not enter into any obligations above and beyond its obligation to pay contributions. In 2019, pension expenses relating to defined-contribution plans totaled € 0 thousand (previous year: € 14 thousand). In addition, contributions were paid to state pension insurance agencies in the amount of € 3,965 thousand (previous year: € 4,435 thousand).

The Company has carried as a liability in relation to a pension fund an amount of € 2,759 thousand (previous year: € 2,847 thousand) in connection with the closure of its carton business in the USA. No calculations in accordance with IAS 19 are required for this obligation, but it requires repayment over a period of 20 years.

In general, pension payments depend on the period of employment as well as the employee’s remuneration at the time of his or her retirement.

Sensitivity Analysis

An increase or decrease in the key actuarial assumptions by 0.25 percentage points would have the following effects on the pension obligations as of December 31, 2019:

	Increase of 0.25 percentage points	Decrease of 0.25 percentage points
Interest rate	−35	37
Index-linked salary increase	4	−4
Index-linked pension increase	**33**	**−32**

The sensitivity calculations are based on the average period of the pension obligations calculated on December 31, 2019. The calculations have been made in isolation for the actuarial parameters classified as significant, in order to separately report the effects on the present value of the pension obligations calculated as of December 31, 2019. The sensitivity analysis does not include the obligations to a pension fund in the USA, since these have been frozen and the changes in the actuarial assumptions will not therefore have any effect on the pension obligation.

27 Other Provisions

The following table shows the changes in other provisions:

Figures in € thousand	Jan. 1, 2019	Utilization	Reversal	Addition	Changes in scope of consolidation	Dec. 31, 2019
Guarantee and liability risks	47	0	−32	0	0	15
Litigation risk	2,500	−500	0	7	0	2,007
Dismantling obligations	23	−9	0	0	0	14
Other risks	844	−592	−100	293	0	445
Total	**3,414**	**−1,101**	**−132**	**300**	**0**	**2,481**

Provisions for guarantees and liability risks mainly comprise claims due to damage and other warranties. These provisions were recognized on the basis of figures in previous years. The provisions for legal disputes were made for anticipated claims due to ongoing legal disputes.

The provisions recognized by the Deufol Group are current provisions. More specifically, the outflows are structured as follows, based on when they are expected to be settled:

	Current		Noncurrent		Total	
Figures in € thousand	2019	2018	2019	2018	2019	2018
Guarantee and liability risks	0	8	15	39	15	47
Litigation risk	2,007	2,500	0	0	2,007	2,500
Dismantling obligations	14	23	0	0	14	23
Other risks	445	844	0	0	445	844
Total	**2,466**	**3,375**	**15**	**39**	**2,481**	**3,414**

28 Other Liabilities

Other liabilities can be broken down as follows:

	2019		2018	
Figures in € thousand	Total	Current	Total	Current
Value-added tax and other taxes payable	2,154	2,154	992	992
Social security liabilities	1,264	1,264	1,277	1,277
Liabilities to employees relating to wages and salaries	6,570	6,570	9,422	9,422
Other liabilities to employees (annual leave, overtime, etc.)	45	0	45	1
Deferred income	1,075	1,075	256	256
Other	2,850	2,012	532	499
Total	**13,958**	**13,075**	**12,524**	**12,447**

29 Trade Payables

Trade payables amount to € 25,984 thousand (previous year: € 28,664 thousand) and all have a remaining term of less than one year. This includes liabilities for trade payables that have not yet been invoiced in the amount of € 4,170 thousand (previous year: € 2,842 thousand).

Consolidated Cash Flow Statement Disclosures

The consolidated cash flow statement is prepared in accordance with IAS 7. It shows the origin and appropriation of the money flows in fiscal years 2019 and 2018. It is of key significance for an assessment of the financial position of the Deufol Group. The cash flow statement distinguishes between cash flows from operating activities, investing activities and financing activities.

The cash and cash equivalents reported in the cash flow statement correspond to the "Cash and cash equivalents" item in the balance sheet and comprise cash on hand, checks and immediately available bank balances with an original maturity of up to three months. Please see Note (18) for the breakdown of cash and cash equivalents.

The cash flow from investing activities and the cash flow from financing activities are both calculated directly. In contrast, the cash flow from operating activities is derived using the indirect method.

30 Cash Flow From Operating Activities

In fiscal year 2019, operating activities provided net cash of € 23.6 million (previous year: € 16.9 million). First-time adoption of IFRS 16 had a positive effect on operating cash flow, since the expenses for leases were no longer recognized in the operating result.

31 Acquisitions

A cash outflow of € 0.1 million resulted due to the acquisition of additional shares in companies already fully consolidated; we refer to page ▶063.

32 Cash Flow From Investing Activities

In the past fiscal year, an € 8.7 million (previous year: € 0.8 million) outflow of funds from investing activities resulted. Investments in intangible assets and property, plant and equipment amounted to € 10.5 million, while an inflow of funds in the amount of € 1.5 million resulted from the disposal of intangible assets and property, plant and equipment. The net change in financial receivables was € –0.1 million. The interest received amounted to € 0.6 million.

33 Cash Flow From Financing Activities

In the past fiscal year, a € 13.1 million (previous year: € 4.5 million) outflow of funds from financing activities resulted. In connection with the first-time adoption of IFRS 16, the cash outflow increased due to recognition of the repayment portion of the lease payments and the interest expense in the cash flow from financing activities. Cash outflows due to the extinction of other financial liabilities amounted to € 15.1 million (previous year: € 1.1 million); the interest paid totaled € 2.9 million (previous year: € 2.0 million).

The Group received cash due to bank borrowings in the amount of € 7.7 million (previous year: € 1.3 million), mainly as a result of the widening of its financing framework.

As in the previous year, Deufol SE distributed a dividend in the amount of € 2.6 million in 2019. An amount of € 0.1 million was paid in order to purchase treasury shares in the past fiscal year.

The adjustments to reconcile financial liabilities to the cash flow from financing activities in fiscal year 2019 are shown below:

			Non-cash-effective					
Figures in € thousand	**Dec. 31, 2018**	Cash-effective	Changes in the scope of consolidation	Currency translation adjustments	IFRS 16	Other	Changes in fair value	**Dec. 31, 2019**
Noncurrent financial liabilities	17,628	10,298	0	58	15,085	20,710	0	63,779
Current financial liabilities	46,168	−17,704	0	0	29,033	−20,710	0	36,787
Forward exchange transactions used for hedging purposes – assets	0	0	0	0	0	0	0	0

34 Change in Cash and Cash Equivalents

The cash and cash equivalents balance increased by € 2.1 million, from € 29.5 million to € 31.6 million. Net financial indebtedness – defined as financial liabilities less the Group's financial receivables and cash and cash equivalents – increased by € 34.5 million.

Other Disclosures

35 Contingencies and Contingent Liabilities

Within the Group, guarantees have only been granted to third parties for obligations reported in the balance sheet or for reciprocal rental payment guarantees. As in previous years, the Group has not issued any guarantees in relation to associates.

We examine legal disputes and administrative procedures on an individual basis. We evaluate the possible outcomes of such legal disputes on the basis of the information we have received and in consultation with our lawyers and tax advisers. Where we are of the opinion that an obligation will probably lead to future fund outflows, we carry as a liability the present value of the expected fund outflows where these are deemed to be reliably measurable. Legal disputes and tax affairs present complex issues and are associated with a large number of imponderabilities and difficulties, including the facts and circumstances of the individual case and the authority involved.

36 Contingent Assets

In connection with the construction of its new plant in Hungary, in fiscal year 2019 Deufol began to make extensive investments in property, plant and equipment, particularly in land and buildings as well as technical equipment and machinery. These investments were partly funded by means of government grants; related applications were submitted and approved in fiscal year 2019. Disbursement of these grants is subject to the conclusion of a funding agreement which is to be signed after the reporting date.

37 Capital Management Disclosures

In principle, Deufol's goal is to secure its equity capital base on a long-term basis. A Group equity ratio in excess of 40 % is aimed for. As of December 31, 2019, the Group's equity ratio was 42.5 % (previous year: 48.7 %). The relatively significant decline on the previous year's figure is attributable, in particular, to the first-time adoption of the new accounting standard IFRS 16 in relation to leases. This resulted in a substantial increase in the balance sheet total. The equity ratio thereby functions merely as a passive management criterion, with sales and the operating result (EBIT) being used as active management variables.

In some cases within the Group, credit agreements are tied to compliance with financial ratios. In these cases, the development of the relevant financial ratios forms a fixed component of the reporting of the affected companies, for early recognition and rectification of undesirable trends and negotiations with the relevant lenders. All financial ratios were complied with in the past fiscal year.

38 Financial Risk Management

The Deufol Group is exposed to various financial risks in its normal business activities. These include, in particular, market risks (currency risk, interest risk and goods price risk), the risk of nonpayment and the liquidity risk. The Deufol Group uses a standardized, Group-wide risk management system to manage these risks. The aim is to establish an operating routine based on actions, and therefore on constant risk minimization. Within the Deufol Group, derivatives are used exclusively for risk reduction purposes.

Currency Risks

The currency risk is the risk of the fair value or future cash flows of a financial instrument being subject to change due to exchange-rate fluctuations. Overall, the risks resulting from the change in exchange rates are of minor significance for the operating activities of the Deufol Group. The main effect on the Group's assets position resulted from the translation of the American companies' US-dollar-denominated financial statements into the reporting currency euro. If the euro were 10 % stronger (weaker) against the US dollar, the earnings of the Group would have been € 26 thousand higher (lower) and in the previous year € 16 thousand lower (higher). The balancing item in equity would have been € 0 thousand higher (lower) and in the previous year € 1 thousand higher (lower).

Further currency risks result from the consolidation of the Hungarian, Chinese and Czech companies. The Deufol Group is currently using forward exchange transactions to hedge currency risks (Czech crown).

Derivatives not designated as hedging instruments reflect the negative change in the fair value of the forward exchange contracts which are not included in a hedging relationship but are nonetheless used in order to reduce the currency risk resulting from expected purchases and sales.

The forward exchange contracts are designated in Czech crowns as hedging instruments, in order to hedge cash flows from expected sales. These expected transactions are highly probable.

An economic relationship exists between the hedged item and the hedging instrument, since the conditions for the forward exchange contracts match those of the highly probable future transactions (this is the case for the nominal amount and for the envisaged payment due date). The underlying risk for the forward exchange contracts is identical to that of the hedged risk components. The Group has therefore specified a hedge ratio of 1:1 for these hedges.

Currency risks arising from the planned operating exposure are partly hedged by means of forward exchange transactions. These are recognized in the balance sheet as cash flow hedges.

A hedge might become ineffective due to changes in the expected cash flows resulting from the hedged item and the hedging instrument.

The Group has the following forward exchange contracts:

Figures in € thousand	2019			2018		
	Maturity			Maturity		
	up to 1 year	over 1 year	Total	up to 1 year	over 1 year	Total
Forward exchange contracts	52	4	56	−27	−272	−299
Notional amount	11,845	650	12,495	12,955	11,100	24,055
Average forward rate EUR/CZK	25.7904	26.1727	25.8103	25.9054	25.7628	25.8396

The hedging instruments used have had the following effects on the balance sheet:

Carrying amounts/fair values of the hedging instruments used for hedge accounting Figures in € thousand	Dec. 31, 2019	Dec. 31, 2018
Noncurrent financial assets	0	0
Current financial assets	56	0
Noncurrent financial liabilities	17	0
Current financial liabilities	0	0

Within the scope of the accounting for cash flow hedges, the designated effective portions of a hedge are to be reported through OCI. Any additional changes in the market value of the designated component will be recognized through profit or loss, as ineffective. The current cash flow hedges are considered to be fully effective.

The following table is a reconciliation of the reserve for the cash flow hedges:

Figures in € thousand	2019	2018
Balance at Jan. 1	262	0
Profits or losses (after taxes) from effective hedges recognized in equity	−39	262
Reclassifications due to the realization of the hedged item	−151	0
Balance at Dec. 31	**72**	**262**

Interest Rate Risk

The interest rate risk is the risk of the fair value or future cash flows of a financial instrument being subject to fluctuation due to changes in the market interest rate. Businesses may be exposed to this risk through variable-interest and fixed-interest financial instruments.

The Deufol Group holds both fixed-interest and variable-interest financial instruments. If the interest rate level as of December 31, 2019 for variable-interest liabilities had been an average of 100 basis points higher (lower), this would have had an effect on the Group's interest expense in the approx. amount of € 379 thousand (previous year: € 399 thousand).

Goods Price Risk

The Group's key requirements include packaging materials such as wood, foils, screws and cardboard. The purchasing prices for these products may fluctuate, depending on the market situation. It is not always possible to directly pass on fluctuating prices to customers. A goods price risk therefore applies which may influence the Group's earnings, equity and cash flow situation. To minimize risks outline delivery agreements have been concluded with various suppliers. In addition, some agreements include a stipulation that the cost of materials will be passed on directly, so that no goods price risk applies in the case of these agreements.

Credit Risk (Nonpayment Risk)

The Group only enters into business with creditworthy third parties. In almost all cases, customers of the Deufol Group are major industrial companies with good or very good credit standing. In addition, the Group's receivables are continuously monitored so that the Group is not exposed to any significant default risk. The maximum default risk for trade receivables is limited to their carrying amount. Please see Note (17) for further disclosures.

In case of other financial assets of the Group such as cash and cash equivalents, receivables under finance leases and other assets, the maximum credit risk in the event of the counterparty's default is the carrying amount of these instruments.

Liquidity Risks

The liquidity risk is the risk of a company experiencing difficulties in meeting its payment obligations for its financial instruments.

The Deufol Group is financed through various regional financing groups. Most financing is provided by means of syndicated borrowing facilities and bilateral bank loans. Local management continuously monitors the liquidity status of consolidated foreign Group companies and regularly notifies the Group's management of this; the Group's management handles daily liquidity monitoring and control centrally for the German companies.

The following table shows all the contractually agreed payments for interest and repayment for financial liabilities shown in the balance sheet:

Figures in € thousand	2020	2021 to 2024	After 2024
At December 31, 2019			
Amounts due to banks	22,648	37,338	11,792
Liabilities under financial leases	14,953	17,119	2,053
Other financial liabilities	131	157	0
Trade payables	25,984	0	0
Other liabilities (excl. tax liabilities)	10,921	883	0

Figures in € thousand	2019	2020 to 2023	After 2023
At December 31, 2018			
Amounts due to banks	45,019	9,398	6,983
Liabilities under financial leases	968	2,334	457
Other financial liabilities	40	234	0
Trade payables	28,664	0	0
Other liabilities (excl. tax liabilities)	11,456	77	0

Further Financial Instruments Disclosures

The net result for the financial instruments in terms of valuation categories is as follows:

	From subsequent valuation						
Figures in € thousand	From interest	At fair value	Currency translation	Valuation adjustment	From disposal	**2019**	2018
Financial assets measured at amortized cost	553	0	0	−887	0	−334	−3,370
Financial assets measured at fair value through profit or loss	0	0	0	0	0	0	0
Financial liabilities measured at amortized cost	−2,576	0	0	0	−151	−2,727	−1,781

Valuation of financial instruments

Cash and cash equivalents, trade receivables and other receivables normally have short residual maturities. Accordingly, on the reporting date their carrying amounts approximately correspond to the fair value. Trade payables and other liabilities generally have short residual maturities. The figures shown in the balance sheet therefore approximately correspond to the fair values.

The fair values of interest-bearing loans and borrowings and lease liabilities are calculated as the present value of the payments associated with the liabilities, with use of market interest rates.

Financial instruments measured at fair value through other comprehensive income relate to derivative currency hedging contracts which have been included in hedge accounting. For the measurement of forward exchange transactions, the cash flows from the forward exchange transaction are discounted to the valuation date, subject to the discount factors currently applicable for the remaining term. The resulting foreign-currency amounts are then translated into euros at the spot rate on the valuation date. The market value is thus determined on the basis of parameters for which quoted prices derived either directly or indirectly are available on an active market (Level 2 of the measurement hierarchy according to IFRS 13).

The fair-value hierarchy levels in accordance with IFRS 7 in conjunction with IFRS 13 are as follows:

Level 1: Quoted market prices for identical assets and liabilities in active markets

Level 2: Information other than quoted market prices which is observable directly (e.g. prices) or indirectly (e.g. derived from prices)

Level 3: Information for assets and liabilities which is not based on observable market data

The carrying amounts for the financial instruments in terms of valuation categories and fair-value hierarchy levels are as follows:

			Balance sheet valuation (IFRS 9)					
				Fair value through OCI				
Figures in € thousand	Fair-value hierarchy	**Carrying amount Dec. 31, 2019**	Amortized cost	Incl. recycling*	Excl. recycling**	Fair value through profit or loss	Valuation according to IFRS 16	**Fair value as of Dec. 31, 2019**
Financial assets								
Cash and cash equivalents	1	31,627	31,627	—	—	—	—	31,627
Trade receivables	2	29,206	29,206	—	—	—	—	29,206
Other receivables	2	8,305	8,305	—	—	—	—	8,305
Investments	3	8	8	—	—	—	—	8
Derivatives used for hedging purposes	2	56	—	56	—	—	—	56
Financial liabilities								
Amounts due to banks	2	67,693	67,693	—	—	—	—	67,693
Trade payables	2	25,984	25,984	—	—	—	—	25,984
Liabilities under financial leases	2	32,585	—	—	—	—	32,585	32,585
Other liabilities	2	14,247	14,247	—	—	—	—	14,247

* Incl. recycling = items which may be reclassified to the income statement in future

** Excl. recycling = items which will not be reclassified to the income statement in future

			Balance sheet valuation (IFRS 9)					
				Fair value through OCI				
Figures in € thousand	Fair-value hierarchy	**Carrying amount Dec. 31, 2018**	Amortized cost	Incl. recycling*	Excl. recycling**	Fair value through profit or loss	Valuation acc. IAS 17	**Fair value as of Dec. 31, 2018**
Financial assets								
Cash and cash equivalents	1	29,456	29,456	—	—	—	—	29,456
Trade receivables	2	32,595	32,595	—	—	—	—	32,595
Other receivables	2	5,590	5,590	—	—	—	—	5,576
Investments	3	8	8	—	—	—	—	8
Derivatives used for hedging purposes								
Financial liabilities								
Amounts due to banks	2	59,965	59,965	—	—	—	—	59,965
Trade payables	2	28,664	28,664	—	—	—	—	28,664
Liabilities under financial leases	2	3,557	—	—	—	—	3,557	3,537
Other liabilities	2	13,723	13,723	—	—	—	—	13,699
Derivatives used for hedging purposes	2	0	—	−299	—	—	—	−299

* Incl. recycling = items which may be reclassified to the income statement in future
** Excl. recycling = items which will not be reclassified to the income statement in future

Segment Information by Region and Services

The segment reporting is prepared in accordance with the provisions of IFRS 8 (Operating Segments).

Its primary reporting format is based on geographical regions which have been grouped for the purpose of corporate management. As the segment result – used for assessment of the business success of the respective segments – the management has calculated the result for the period before taxes, financial income, financial expenses, shares of profits of companies accounted for using the equity method and amortization/impairment of goodwill (EBITA).

The Deufol Group has the following segments for which reporting requirements apply:

- Germany
- Rest of Europe
- USA/Rest of the World

The Holding segment covers the Group's administrative activities and, in addition to Group management functions, includes support functions such as key account management and corporate communications.

The operating result (EBITA) for the business units is separately monitored by the management in order to make decisions on the allocation of resources and to determine the units' performance. The segments' development is mainly measured with reference to the operating result. As the Deufol Group has a decentralized organizational structure, financial expenses and income and income taxes can be allocated to the individual business segments.

The prices charged between the business segments are determined on the basis of the arm's-length principle.

40 Segment Information by Region

Figures in € thousand	Germany	Rest of Europe	USA/Rest of the World	Holding	Elimination	**Group**
2019						
External sales	152,125	60,436	34,266	234	0	247,061
Internal sales	20,345	28,888	260	10,807	−60,300	0
Total sales	**172,470**	**89,324**	**34,526**	**11,041**	**−60,030**	**247,061**
EBITA	4,829	6,956	−403	−2,710	−2,472	6,200
Financial income	259	262	178	1,842	−1,986	555
Finance costs	−1,754	−951	−567	−1,614	1,986	−2,900
Income (loss) from associates and other equity investments	111	0	0	0	0	111
Other financial result	0	52	0	0	0	52
EBT	3,445	6,319	−792	−2,482	−2,472	4,018
Taxes						−951
Result for the period						**3,067**
Assets	105,599	147,698	53,413	288,484	−325,754	269,440
thereof investments accounted for using the equity method	1,259	0	0	69	0	1,328
Non-allocated assets						
Total assets	**105,599**	**147,698**	**53,413**	**288,484**	**−325,754**	**269,440**
Financial liabilities	44,501	54,403	6,681	74,979	−79,998	100,566
Other debt	32,674	41,989	22,516	14,155	−57,003	54,331
Non-allocated debt						
Total liabilities	**77,175**	**96,392**	**29,197**	**89,134**	**−137,001**	**154,897**
Depreciation, amortization and impairment	11,514	6,630	1,973	1,964	−53	22,028
Investments	27,484	22,589	3,870	2,210	−1,492	54,661
2018						
External sales	157,822	65,208	41,879	200	0	265,109
Internal sales	22,764	24,799	69	14,283	−61,915	0
Total sales	**180,586**	**90,007**	**41,948**	**14,483**	**−61,915**	**265,109**
EBITA	3,656	9,190	561	−4,256	660	9,811
Financial income	359	100	33	1,364	−1,733	123
Finance costs	−1,223	−513	−556	−1,440	1,733	−1,999
Income (loss) from associates and other equity investments	−3,723	0	0	3,915	0	192
Other financial result	0	−24	0	0	0	−24
EBT	−931	8,753	38	−417	660	8,103
Taxes						−4,343
Result for the period						**3,760**
Assets	84,966	112,099	54,005	268,504	−286,094	233,480
thereof investments accounted for using the equity method	1,147	0	0	70	0	1,217
Non-allocated assets						0
Total assets	**84,966**	**112,099**	**54,005**	**268,504**	**−286,094**	**233,480**
Financial liabilities	24,884	23,969	11,862	56,463	−53,382	63,796
Other debt	32,810	37,991	17,557	13,023	−45,296	56,085
Non-allocated debt						0
Total liabilities	**57,694**	**61,960**	**29,419**	**69,486**	**−98,678**	**119,881**
Depreciation, amortization and impairment	2,475	4,108	1,262	1,242	−56	9,031
Investments	1,259	5,971	183	1,126	343	8,882

Information on Key Customers

The Deufol Group has a customer in the Consumer Goods Packaging business segment with which it realized a total amount of €14.0 million (previous year: €11.6 million) or approx. 5.7 % (previous year: 4.4 %) of its sales in the past fiscal year. This customer falls within the USA/Rest of the World segment. The Deufol Group also has two major customers in the field of export packaging. In the past fiscal year, the Deufol Group realized €61.9 million (previous year: €56.9 million) and €31.7 million (previous year: 27.0 %) – or approx. 25.1 % and 12.8 %, respectively (previous year: 22.2 % and 10.2 %) – of its total sales with these customers. These customers relate mainly to the Germany segment and also the Rest of Europe and USA/Rest of the World segments.

Further Information on the Segment Reporting

No impairment has been recognized in the current fiscal year. In the previous year, in the other intangible assets item impairment was recognized on a capitalized customer list in the amount of €869 thousand. This was recognized due to a volume of sales which fell short of the expectations for the business relationships covered by the customer list and exclusively related to the USA/Rest of the World segment.

The Group measures an investment property at fair value. This resulted in a revaluation gain in the amount of €2,852 thousand (previous year: €8,157 thousand), which is included in the EBIT figure for the Rest of Europe segment.

41 Information on Services

The following table shows the sales trend by service:

Figures in € thousand	Export & Industrial Packaging	Consumer & Data Packaging	Supplementary Services	Holding	Elimination	**Group**
2019						
External sales	201,181	33,809	11,837	234	0	247,061
Internal sales	41,308	1,770	6,415	10,807	–60,300	0
Total sales	**242,489**	**35,579**	**18,252**	**11,041**	**–60,300**	**247,061**
2018						
External sales	206,038	40,611	18,260	200	0	265,109
Internal sales	40,702	1,627	5,303	14,283	–61,915	0
Total sales	**246,740**	**42,238**	**23,563**	**14,483**	**–61,915**	**265,109**

42 Events after the Balance Sheet Date

The corona pandemic which has spread around the globe during the first quarter of fiscal year 2020 and the measures implemented by a large number of countries to curb the spread of the virus will have a significant impact on global economic development in 2020. The Deufol Group will likewise be unable to escape this trend. It is not currently possible to provide a reliable estimate as to the duration of the related adverse impacts and, in particular, the scope of these impacts. Please see the combined management report and Group management report for more information on the effects of the corona pandemic.

We are not aware of any further significant events after the balance sheet date.

Supplementary Disclosures

Disclosures Concerning the Executive Bodies

The Administrative Board – which comprised six non-executive directors and two managing directors as of the end of 2019 – had the following membership in the reporting period:

Name and position	
Detlef W. Hübner (Chairman) Appointed until AGM 2021	■ Managing Director of Deufol SE
Helmut Olivier (Deputy Chairman) Appointed until AGM 2021	■ Senior Advisor at Balder Capital, London / England
Dennis Hübner Appointed until AGM 2021	■ Managing Director of Deufol SE
Marc Hübner Appointed until AGM 2021	■ Head of Business Development of Deufol SE
Holger Bürskens Appointed until AGM 2021	■ Partner of ARNECKE SIBETH DABELSTEIN Rechtsanwälte Steuerberater Partnerschaftsgesellschaft mbB, Frankfurt am Main
Wulf Matthias Appointed until AGM 2021	■ Financial Advisor at Wulf Matthias Wirtschaftsberatung, Frankfurt am Main
Axel Wöltjen Appointed until AGM 2021	■ Managing Director of A. Wöltjen Consulting GmbH, Wendelstein
Prof. Dr. Rüdiger Grube Appointed until AGM 2021	■ Chairman Investment Banking Germany at Lazard Ltd. and Managing Director of Rüdiger Grube International Business Leadership GmbH, Hamburg

No loans or advances were granted to the members of the Administrative Board. Nor were any contingent liabilities assumed in favor of the members of the Administrative Board.

In 2019, Administrative Board compensation totaled € 140 thousand (previous year: € 128 thousand).

The Company had the following managing directors in the reporting period:

Name	Departments
Jürgen Hillen	■ Finance, Treasury, Legal & Compliance, Investor Relations & Communications, Property & Administration, Purchasing, South-East European Expansion
Dennis Hübner (CEO)	■ Global Supply Chain, Direct Sales, Digital Sales & IT, KAIZEN Services, Human Relations, Project Management, International Markets Rest of the World
Detlef W. Hübner	■ Strategy, Audit
Jürgen Schmid	■ Strategic Key Account Management – Bottling and Brewery Industry

Mr. Klaus Duttiné resigned from his position as a managing director of the Company as of February 28, 2019. Mr. Jürgen Hillen joined the Company as a managing director on March 1, 2019.

The total remuneration of the managing directors can be broken down as follows:

Figures in € thousand	2019	2018
Fixed remuneration	1,712	1,450
Variable remuneration	90	785
Other remuneration	30	33
Total	**1,832**	**2,268**

The managing directors' total remuneration constitutes short-term benefits.

Information in Accordance with Section 264 (3) of the German Commercial Code

The consolidated financial statements of Deufol SE have a discharging effect for the preparation and disclosure of the annual financial statements of the consolidated corporations pursuant to section 264 (3) HGB once the preconditions laid down in these provisions have been fulfilled. The following consolidated companies make use of the exemption provisions:

- Deufol Nürnberg GmbH, Nuremberg
- Deufol Frankfurt GmbH, Frankfurt am Main
- Deufol West GmbH, Mülheim an der Ruhr
- Deufol Süd GmbH, Neutraubling
- Deufol Remscheid GmbH, Remscheid
- Deufol Berlin GmbH, Berlin

Relationships with Related Parties

As well as the companies included in the consolidated financial statements, Deufol SE also has direct or indirect relations with nonconsolidated subsidiaries, associates and joint ventures in the course of its normal business; these relations are indicated in the list of shareholdings. Business relationships with these companies are entered into on an arm's-length basis.

A. Wöltjen Consulting GmbH, Wendelstein, qualifies as a related party since its managing director has been a member of the Administrative Board of Deufol SE since July 2, 2013. In fiscal year 2019, expenses amounted to €7 thousand (previous year: €18 thousand). On December 31, 2019, the Company had liabilities in relation to A. Wöltjen Consulting GmbH in the amount of €9 thousand (previous year: €9 thousand).

ARNECKE SIBETH DABELSTEIN Rechtsanwälte Steuerberater Partnerschaftsgesellschaft mbB, Frankfurt, qualifies as a related party since a partner has been a member of the Administrative Board of Deufol SE since June 30, 2016. In fiscal year 2019, expenses amounted to €363 thousand (previous year: €411 thousand). On December 31, 2019, the Company had liabilities in relation to ARNECKE SIBETH DABELSTEIN Rechtsanwälte Steuerberater Partnerschaftsgesellschaft mbB in the amount of €124 thousand (previous year: €218 thousand).

Hofgut Liederbach GmbH & Co. KG, Frankfurt am Main, qualifies as a related party since its two shareholders are members of the Administrative Board of Deufol SE. In fiscal year 2019, expenses amounted to €23 thousand (previous year: €432 thousand), while income amounted to €0 thousand (previous year: €14 thousand). On December 31, 2019, the Company had receivables from Hofgut Liederbach GmbH & Co. KG in the amount of €0 thousand (previous year: €11 thousand).

Timmerhell GmbH, Hofheim am Taunus, qualifies as a related party since its two shareholders are members of the Administrative Board of Deufol SE. In fiscal year 2019, expenses amounted to € 317 thousand (previous year: € 0 thousand). As of December 31, 2019, as in the previous year there were no receivables from or liabilities to Timmerhell GmbH.

The transactions with other related parties also include relationships with companies in which Mr. Detlef W. Hübner holds a majority interest. In the past fiscal year, these transactions resulted in revenue in the amount of € 1 thousand (previous year: € 1 thousand). As of December 31, 2019, liabilities to these companies and to Mr. Detlef W. Hübner amounted to € 24 thousand (previous year: € 0 thousand), while receivables from these companies and from Mr. Detlef W. Hübner amounted to € 1 thousand (previous year: € 25 thousand).

The following table shows the services performed by the Group for related parties and for the Group by related parties in the past fiscal year:

Figures in € thousand	Associates and other equity investments	Other related parties
2019		
Sales and other income	852	1
Expenses	196	710
Receivables	528	1
Liabilities	141	157
2018		
Sales and other income	1,831	15
Expenses	239	861
Receivables	668	36
Liabilities	130	227

Hofheim am Taunus, April 23, 2020

The Managing Directors

Detlef W. Hübner, Dennis Hübner, Jürgen Hillen, Jürgen Schmid

Independent Auditor's Report

Audit Opinions

We have audited the consolidated financial statements of Deufol SE, Hofheim am Taunus, comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements, including the accounting and valuation methods for the fiscal year from January 1, 2019 to December 31, 2019. We have also audited the Group management report which has been combined with the management report of Deufol SE, Hofheim am Taunus, for the fiscal year from January 1, 2019 to December 31, 2019.

The inclusion of the accounts in the audit in accordance with section 317 (1) clause 1 HGB and the audit of the combined management report and Group management report in accordance with section 317 (2) HGB represent additional statutory requirements which exceed those laid down in the International Standards on Auditing (ISA).

Our audit conducted in accordance with section 317 HGB has not led to any reservations.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315 e (3) HGB and, in accordance with these requirements, give a true and fair view of the assets and financial position of the Group as of December 31, 2019 as well as its results of operations for the fiscal year from January 1, 2019 to December 31, 2019;
- the accompanying combined management report and Group management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report and Group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to section 322 (3) clause 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report and Group management report.

Basis for the Audit Opinions

We have conducted our audit of the consolidated financial statements and the combined management report and Group management report in accordance with section 317 HGB while complying with the International Standards on Auditing (ISA). Our responsibility under those requirements and standards is further described in the "Auditor's Responsibility for the Audit of the Consolidated Financial Statements and of the Combined Management Report and Group Management Report" section of our auditor's report. We are independent of the Group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report and Group management report.

Other Information

The parent company's management is responsible for the other information. The other information comprises:

- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and the combined management report and Group management report and our auditor's report.

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

- is materially inconsistent with the consolidated financial statements, with the combined management report and Group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibility of the Management and the Administrative Board for the Consolidated Financial Statements and the Combined Management Report and Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to section 315 e (3) HGB and for the consolidated financial statements, in compliance with these requirements, giving a true and fair view of the net assets, financial position and results of operations of the Group. In addition, management is responsible for such internal control as they have determined to be necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern. They are also responsible for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going-concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the combined management report and Group management report that, as a whole, provides an appropriate view of the Group’s position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report and Group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report and Group management report.

The Administrative Board is responsible for overseeing the Group’s financial reporting process for the preparation of the consolidated financial statements and of the combined management report and Group management report.

Auditor’s Responsibility for the Audit of the Consolidated Financial Statements and of the Combined Management Report and Group Management Report

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB while complying with the International Standards on Auditing (ISA) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report and Group management report.

Within the scope of our audit in compliance with the ISA, we exercise professional judgment and maintain professional skepticism.

We also

- identify and assess the risks of material misstatement in the consolidated financial statements and in the combined management report and Group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report and Group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- draw conclusions regarding the appropriateness of management's use of the going-concern basis of accounting and, based on the audit evidence obtained, as to whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to section 315 e (3) HGB.
- evaluate the consistency of the combined management report and Group management report with the consolidated financial statements, its conformity with German law and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by management in the combined management report and Group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information or on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

Hofheim am Taunus, April 24, 2020

VOTUM AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Leoff	Lehnert
Certified auditor	Certified auditor

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Annual Report 2019 | **IT Services**

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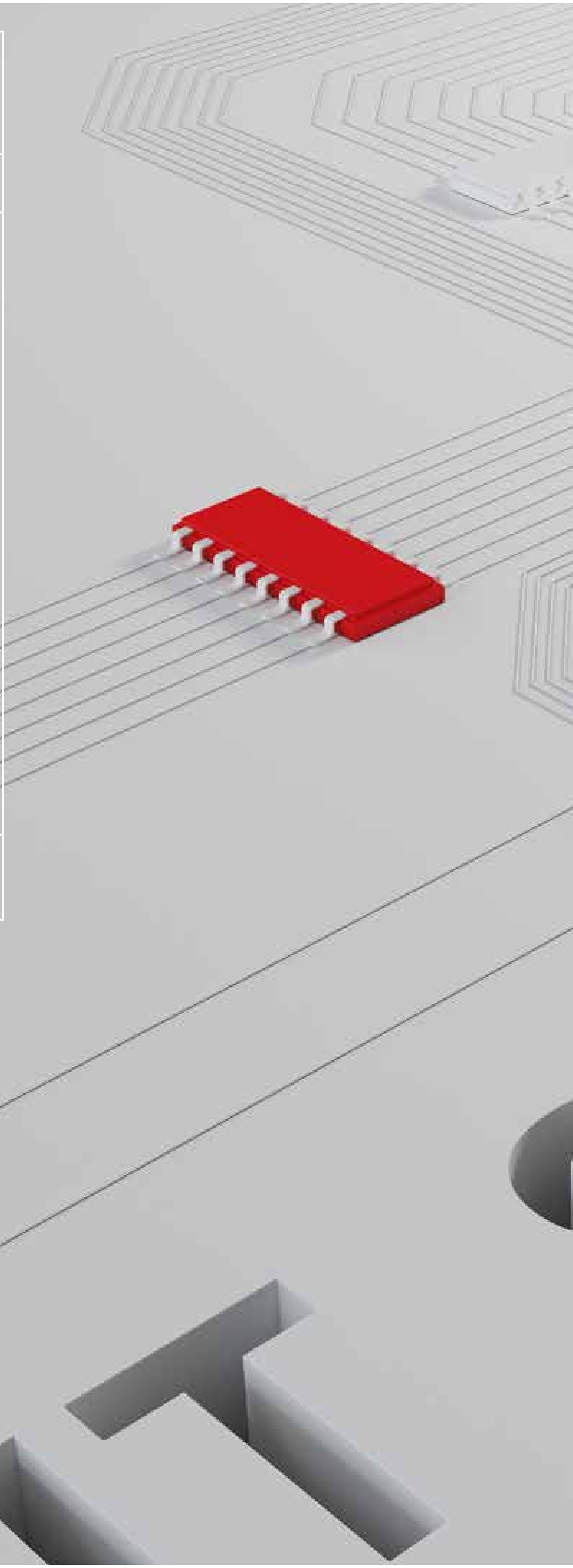
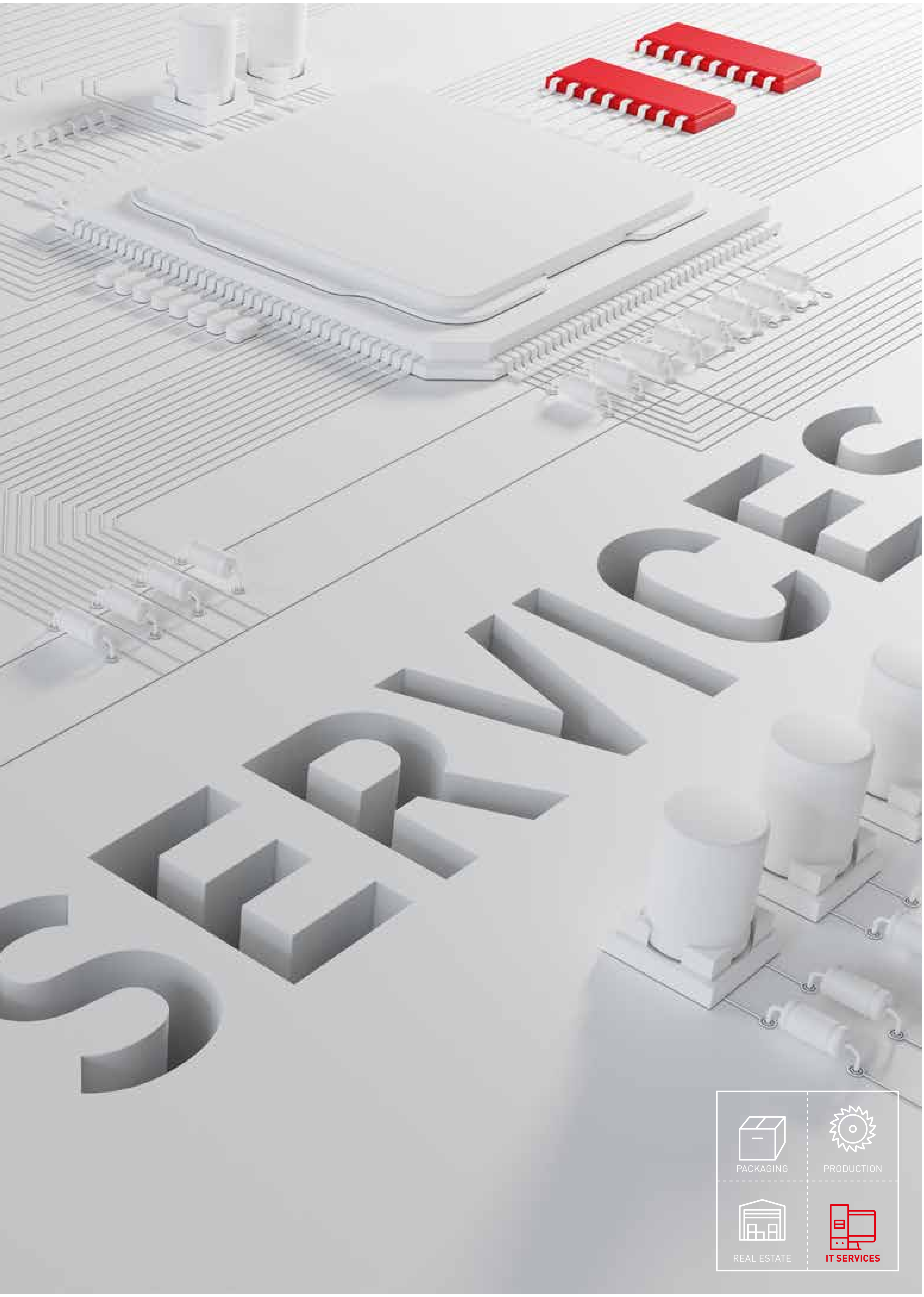



SERVICES
PACKAGING
PRODUCTION
REAL ESTATE
IT SERVICES

Information on Deufol SE

Income Statement of Deufol SE

Figures in € thousand	2019	2018
1. Sales	**11,041**	**14,483**
2. Other operating income thereof income from currency translation: € 719 thousand (previous year: € 871 thousand)	11,793	5,242
3. Cost of materials Expenses for raw materials, consumables and supplies and for purchased merchandise	−1,897	−4,773
4. Personnel costs		
a) Wages and salaries	−6,453	−7,856
b) Social security contributions thereof for old-age provision: € 7 thousand (previous year: € 5 thousand)	−726	− 723
5. Amortization of intangible assets and depreciation of property, plant and equipment	−1,305	−1,244
6. Other operating expenses thereof expenses for currency translation: € 386 thousand (previous year: € 126 thousand)	−8,732	−9,959
7. Income due to profit transfer agreements and from investments thereof from affiliated companies: € 4,645 thousand (previous year: € 6,096 thousand)	4,645	6,096
8. Other interest and similar income thereof from affiliated companies: € 1,497 thousand (previous year: € 1,285 thousand)	1,841	1,364
9. Write-downs of financial assets	−5,414	0
10. Interest and similar expenses thereof for affiliated companies: € 386 thousand (previous year: € 255 thousand)	−1,586	−1,440
11. Income taxes	27	−23
12. Earnings after taxes	**3,234**	**1,167**
13. Other taxes	−88	−11
14. Net profit for the year	**3,146**	**1,156**
15. Allocation to retained earnings a) Other revenue reserves	−1,500	0
16. Retained profits brought forward	12,111	13,525
17. Net income for the year	**13,757**	**14,681**

Balance Sheet of Deufol SE

Assets

Figures in € thousand	Dec. 31, 2019	Dec. 31, 2018
A. Fixed assets	**120,684**	**113,071**
I. Intangible assets	2,726	2,795
1. Purchased licenses, trademarks and similar rights and assets as well as licenses for such rights and assets	2,415	1,930
2. Advance payments made	311	865
II. Property, plant and equipment	6,443	6,882
1. Land, land rights and buildings incl. buildings on third-party land	4,862	5,005
2. Technical equipment and machinery	193	248
3. Other equipment, operating and office equipment	938	1,179
4. Advance payments made and assets under construction	450	450
III. Financial assets	111,515	103,394
1. Shares in affiliated companies	95,420	95,794
2. Loans to affiliated companies	15,831	7,411
3. Investments	189	189
4. Other loans	75	0
B. Current assets	**59,668**	**47,793**
I. Receivables and other assets	50,684	42,766
1. Trade receivables	300	315
2. Receivables from affiliated companies	49,278	41,779
3. Receivables from companies in which a participating interest is held	94	98
4. Other assets	1,012	574
II. Cash in hand, bank balances	8,984	5,027
C. Deferred expenses and accrued income	**271**	**120**
Total assets	**180,623**	**160,984**

Equity and liabilities

Figures in € thousand		Dec. 31, 2019	Dec. 31, 2018
A. Equity		**96,876**	**96,149**
I. Subscribed Capital	43,773		
less nominal amount of treasury stock	−669	43,104	42,961
II. Capital reserves		28,198	28,184
III. Retained earnings		11,817	10,323
1. Legal reserves		46	46
2. Other revenue reserves		11,771	10,277
IV. Net income for the year thereof retained profits brought forward: € 12,111 thousand (previous year: € 13,525 thousand)		13,757	14,681
B. Provisions		**4,412**	**4,596**
1. Tax provisions		886	176
2. Other provisions		3,526	4,420
C. Liabilities		**79,335**	**60,239**
1. Liabilities to banks		43,117	46,270
2. Trade payables		480	1,026
3. Liabilities to affiliated companies		31,025	10,545
4. Liabilities to companies in which a participating interest is held		29	39
5. Other liabilities thereof taxes: € 1,461 thousand (previous year: € 1,265 thousand)		4,684	2,359
Total equity and liabilities		**180,623**	**160,984**

Significant Equity Investments of Deufol SE

	Equity interest (%)*	Shareholders' equity (€ thousand)	Sales (€ thousand)	Employees
Germany				
Deufol Berlin GmbH, Berlin	100.00	256	8,834	90
Deufol Bochum GmbH, Bochum	100.00	105	4,044	32
Deufol Hamburg GmbH, Hamburg	100.00	994	22,419	97
Deufol Real Estate GmbH (previously Deufol München GmbH), Hofheim am Taunus	100.00	1,123	36	0
Deufol Nord GmbH, Peine	100.00	628	13,898	178
Deufol Nürnberg GmbH, Nuremberg	100.00	17,198	10,516	91
Deufol Remscheid GmbH, Remscheid	100.00	330	5,116	18
Deufol Süd GmbH, Neutraubling	100.00	138	48,612	362
Deufol Südwest GmbH, Frankenthal	100.00	2,895	9,497	88
Deufol West GmbH, Mülheim an der Ruhr	100.00	2,177	25,027	194
DRELU Holzverarbeitung GmbH, Troisdorf	100.00	−974	6,693	57
DTG Verpackungslogistik GmbH, Fellbach	51.02	649	7,676	28
Deufol Rhein-Main GmbH, Butzbach	100.00	610	4,333	31
Rest of Europe				
Deufol Austria Management GmbH, Ramsau, Austria	70.00	2,207	1,779	13
Deufol Austria Pack Center Solutions GmbH, St. Pölten, Austria	70.00	461	6,098	10
Deufol Austria Supply Chain Solutions GmbH, St. Pölten, Austria	70.00	−272	6,454	43
Rieder Kistenproduktion Gesellschaft m. b. H., Ramsau nr. Hainfeld, Austria	70.00	443	9,664	49
Deufol België NV, Tienen, Belgium	100.00	10,824	1,326	8
Deufol Waremme S. A., Waremme, Belgium	100.00	6,473	2,216	85
Deufol Waremme Operations S. A., Waremme, Belgium	100.00	1,002	8,402	85
Manamer NV, Antwerp, Belgium	100.00	(950)	1,067	0
Deufol Lier NV, Lier, Belgium	100.00	512	8,374	57
Deufol Port of Antwerp NV, Antwerp, Belgium	100.00	130	2,299	17
Deufol Česká republika a. s., Ivancice, Czech Republic	100.00	347	8,311	109
Deufol Immobilien CZ s. r. o., Brno, Czech Republic	100.00	324	996	0
Deufol Italia S. p. A., Fagnano Olona, Italy	100.00	605	11,507	52
Deufol Slovensko s. r. o., Krušovce, Slovakia	100.00	1,698	2,031	34
Deufol Hungary Real Estate Kft, Budapest, Hungary	100.00	651	19	0
USA/Rest of the World				
Deufol Sunman Inc., Sunman, Indiana, USA	100.00	3,566	21,473	31

* Attributable to the relevant parent

Glossary

Acid test (%)
Ratio of cash and cash equivalents plus current receivables and inventories to current liabilities

Asset cover ratio I
Ratio of equity to noncurrent assets

Asset cover ratio II
Ratio of equity plus noncurrent liabilities to noncurrent assets

Asset depreciation ratio
Ratio of the accumulated depreciation of property, plant and equipment to the historical cost

Capital employed
Operating capital that is tied up in the operation of a company. It is the total of working capital, the net carrying amount of property, plant and equipment and other noncurrent assets (offset against other noncurrent, non-interest-bearing liabilities)

Cash ratio (%)
Ratio of cash and cash equivalents to current liabilities

Current ratio (%)
Ratio of cash and cash equivalents plus current receivables to current liabilities

Days payables outstanding
Ratio of trade payables to revenue

Days sales outstanding
Ratio of trade accounts receivable to revenue

Dividend yield (%)
Dividend paid for the fiscal year as a ratio of the year-end stock exchange price

EBIT
Earnings before interest and taxes

EBITA
Earnings before interest, taxes and amortization / impairment of goodwill

EBITDA
Earnings before interest, taxes, depreciation and amortization / impairment of goodwill

EBT
Earnings before taxes

EBTA
Earnings before taxes and amortization / impairment of goodwill

Enterprise value
The enterprise value is the value (price) of a company if it were to be purchased and subsequently freed of debt (incl. the sale of nonoperating assets such as financial assets). It is calculated as the sum of the company's market capitalization and net liabilities

Free cash flow
The net amount of cash flow from ordinary operating activities and cash flow from investing activities

Interest cover
The total of EBITA and interest income divided by interest expense

Investment ratio
Ratio of capital expenditure to sales

Net carrying amount per share
Ratio of equity adjusted for deferred tax assets to the number of shares in circulation

Net financial liabilities
Financial liabilities less financial receivables and cash and cash equivalents

Operating cash flow
Cash flow from operating activities

Personnel expense ratio
Ratio of personnel expenses to revenue

Price earnings ratio
Ratio of share price to earnings per share

Property, plant and equipment ratio
Ratio of property, plant and equipment to total assets

Receivables turnover
Ratio of revenue to trade accounts receivable

Working capital
Working capital is the difference between current assets and current non-interest-bearing liabilities

Consolidated Key Figures – Five-Year Overview

Results of operations	2019	2018	2017	2016	2015
Sales (€ thousand)	247,061	265,109	287,728	340,958	324,835
Change on previous year (%)	−6.8	−7.9	−15.6	5	8.7
EBITDA (€ thousand)	28,228	18,842	18,937	19,237	15,601
Margin (%)	11.4	7.1	6.6	5.6	4.8
EBITA (€ thousand)	6,238	9,849	9,334	9,436	8,166
Margin (%)	2.5	3.7	3.2	2.8	2.5
EBT (€ thousand)	4,018	8,103	7,903	5,736	5,494
Margin (%)	1.6	3.1	2.7	1.7	1.7
Income (loss) from continuing operations (€ thousand)	3,067	3,760	5,633	4,635	3,592
Margin (%)	1.2	1.4	2	1.4	1.1
Net income (€ thousand)	3,003	4,025	5,215	5,064	3,299
Margin (%)	1.2	1.5	1.8	1.5	1
Operating cash flow (€ thousand)	23,625	16,860	12,905	12,001	5,541
Margin (%)	9.6	6.4	4.5	3.5	1.7
Free cash flow (€ thousand)	14,931	16,034	8,932	6,073	2,673
Margin (%)	6.0	6.0	3.1	1.8	0.8

Assets position	2019	2018	2017	2016	2015
Current assets (€ thousand)	84,468	80,630	80,608	86,575	87,537
as % of total assets	31.3	34.5	35	36.3	39
Noncurrent assets (€ thousand)	184,972	152,850	149,757	151,957	137,072
as % of total assets	68.7	65.5	65	63.7	61
Balance sheet total (€ thousand)	269,440	233,480	230,365	238,532	224,609
Change on previous year (%)	15.4	1.4	−3.4	6.2	2.9
Liabilities (€ thousand)	154,897	119,882	118,216	130,423	122,215
as % of total assets	57.5	51.3	51.3	54.7	54.4
Shareholders' equity (€ thousand)	114,543	113,599	112,149	108,109	102,394
as % of total assets	42.5	48.7	48.7	45.3	45.6
Working capital (€ thousand)	41,854	35,220	33,305	28,683	30,543
as % of total assets	15.5	15.1	14.5	12	13.6
Capital employed (€ thousand)	203,030	168,339	178,160	176,878	161,383
as % of total assets	75.4	72.1	77.3	74.2	71.9
Noncurrent/current assets	2.19	1.90	1.86	1.76	1.57
Shareholders' equity/liabilities	0.74	0.95	0.95	0.83	0.84
Property, plant and equipment ratio	0.30	0.22	0.24	0.25	0.2
Asset depreciation ratio (%)	47.9	60.0	62.7	59.6	66.6
Inventories/sales (%)	4.7	5.0	4.3	4.2	3.9
Receivables turnover	8.5	8.1	7.0	7.5	7.3
Days sales outstanding	43.2	44.8	52.4	48.9	50
Days payables outstanding	38.4	39.5	36.6	43.2	41.8

Financial and liquidity ratios

	2019	2018	2017	2016	2015
Capital employed/sales (%)	82.2	63.5	61.9	51.9	49.7
Investment ratio (%)	8.4	2.4	2.7	7.1	1.6
Operating cash flow/investments (%)	224.1	172.6	137.3	42	86.8
Asset cover ratio I (%)	71.9	86.1	80.7	77.3	83.5
Asset cover ratio II (%)	119.2	107.6	117.6	115.8	125.2
Interest cover	2.3	5.0	4.2	3.4	2.6
Cash ratio (%)	39.8	32.2	26.1	20.2	20.2
Acid test (%)	86.6	73.5	102.2	94.4	105.5
Current ratio (%)	106.4	88.0	120.5	113.2	123.2
Financial liabilities/equity (%)	89.3	57.3	59.1	64	61.7
Financial liabilities/capital employed (%)	49.5	37.9	35.7	37.2	36.1
Net financial liabilities/EBITDA	1.09	1.81	2.81	2.4	2.5
Net financial liabilities/market capitalization (%)	151.4	76.3	90.2	128.5	169.3

Productivity ratios

	2019	2018	2017	2016	2015
Sales per employee (€)	108,839	112,957	114,768	117,612	122,974
EBITDA per employee (€)	12,435	8,028	7,553	6,636	5,906
EBITA per employee (€)	2,748	4,180	3,723	3,255	3,091
Operating cash flow per employee (€)	10,408	7,184	5,147	4,140	2,098
Personnel costs per employee (€)	39,860	41,900	43,072	38,520	39,065
Personnel cost ratio (%)	36.6	37.1	37.5	32.8	31.8

Per-share ratios

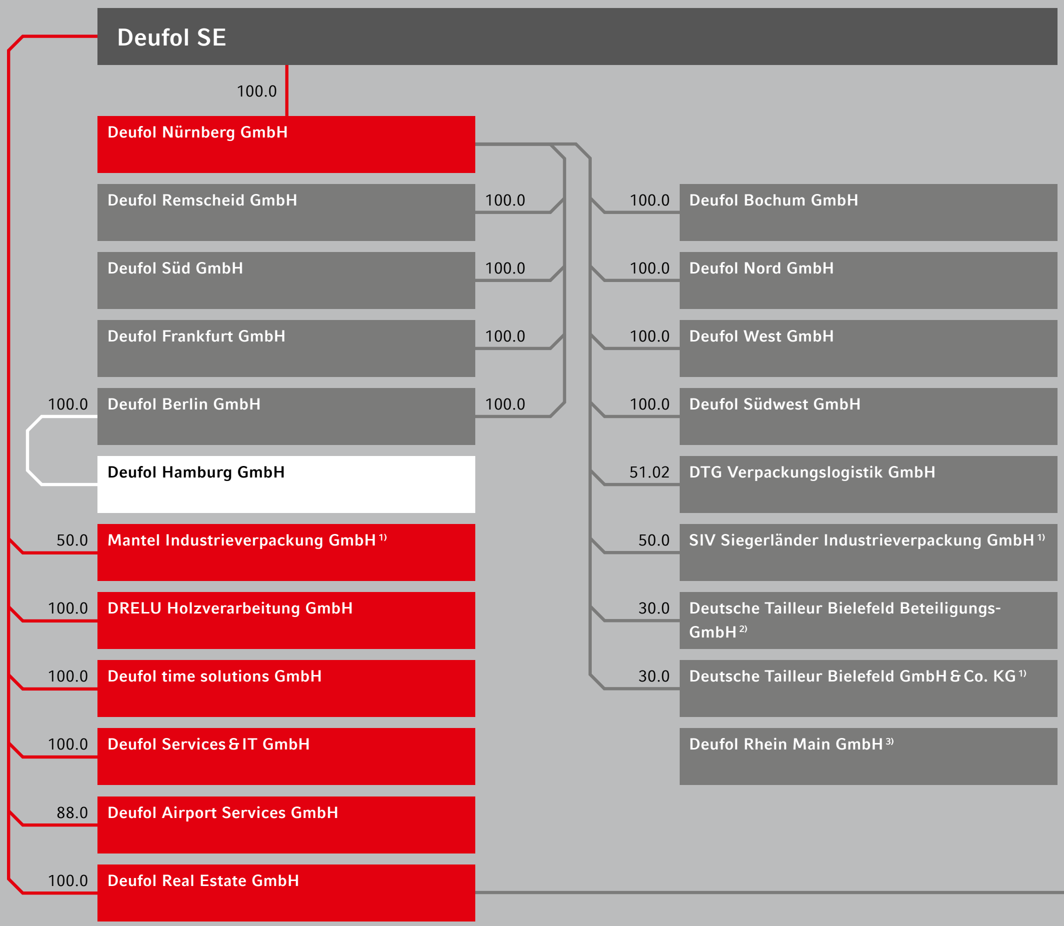
	2019	2018	2017	2016	2015
Earnings per share from continuing operations (€)	0.07	0.09	0.12	0.118	0.075
Earnings per share – EPS (€)	0.07	0.09	0.12	0.118	0.075
Price earnings ratio (PER)	15.0	11.6	9.5	7.3	7.1
Dividend per share (€)	0	0.06	0.06	0	0
Book value per share (€)	2.61	2.59	2.51	2.39	—
Price/book value	0.40	0.40	0.45	0.36	2.15
Book value per share less goodwill (€)	0.97	0.94	0.85	0.74	0.25
Price/book value less goodwill	1.1	1.2	1.3	1.2	0.6

Investment ratios

	2019	2018	2017	2016	2015
Market capitalization/sales	0.18	0.17	0.17	0.11	0.07
Enterprise value/sales	0.47	0.31	0.34	0.26	0.21
Enterprise value/EBITDA	4.1	4.3	5.1	4.7	4.4
Enterprise value/EBIT	18.8	8.3	10.5	9.5	8.3
Enterprise value/operating cash flow	4.9	4.5	7.6	7.5	12.3
Enterprise value/free cash flow	7.8	5.0	10.9	14.8	25.4

Operational Investments of Deufol SE*

Germany

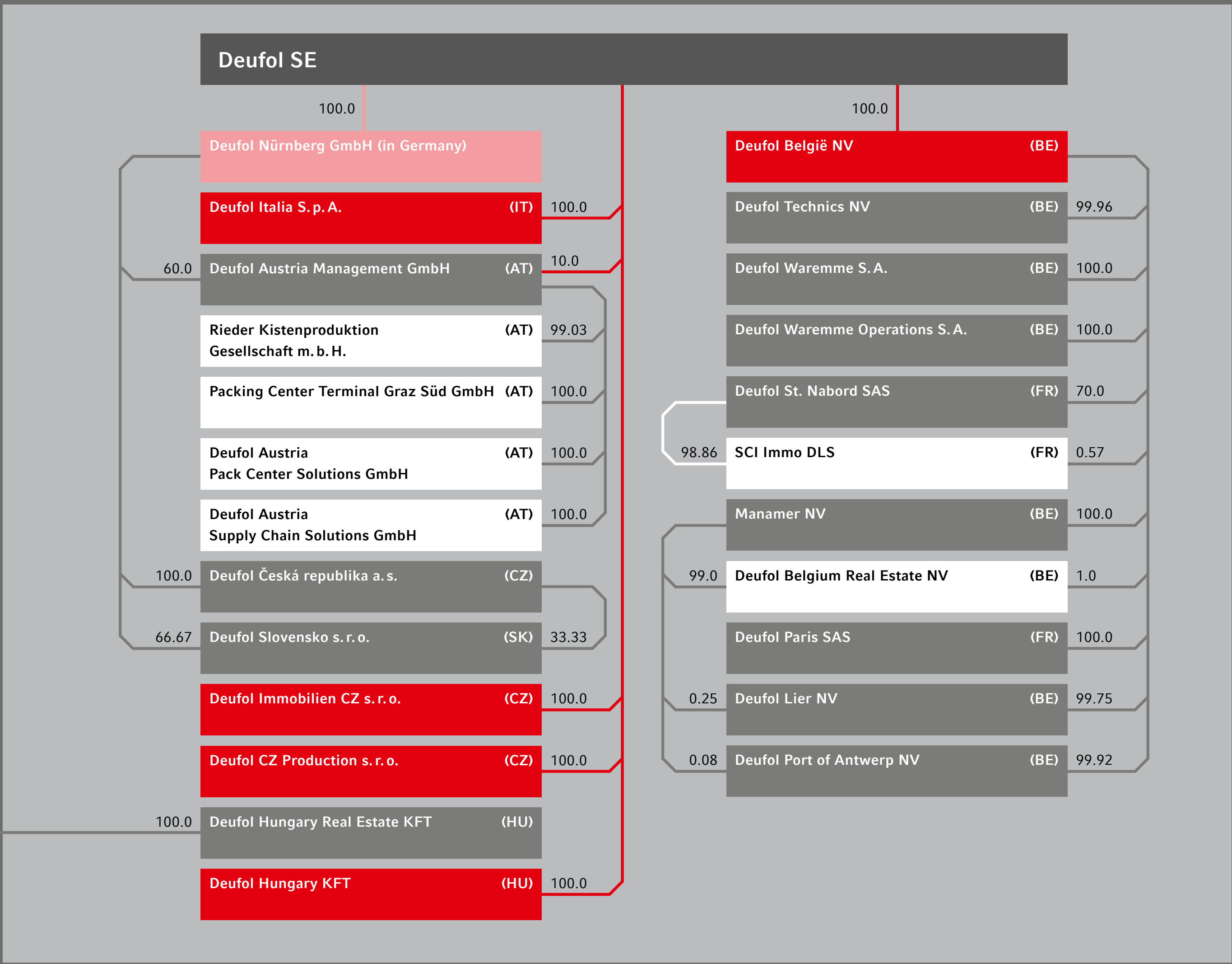


- Tier 1 investment
- Tier 2 investment
- Tier 3/4 investment

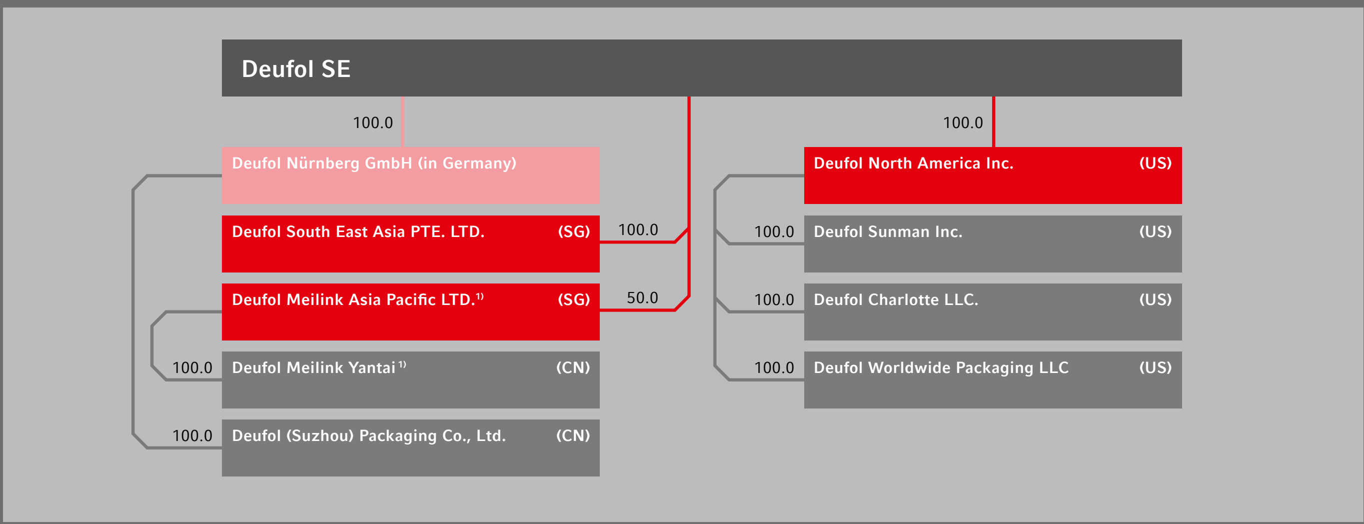
1) Consolidated at equity
2) Unconsolidated
3) This company is wholly owned by Deufol België NV.

* As at December 31, 2019; figures in %

Europe



Rest of the World



Financial Calendar

April 30, 2020	Annual Financial Report 2019
June 26, 2020	Virtual Annual General Meeting 2020
August 21, 2020	Semi-Annual Financial Report 2020

Imprint

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Concept and implementation:
Kammann Rossi GmbH, Cologne

Photos and illustrations:
Page 002/003: forklift (3D model), created by: mohammad6511, license: creativecommons.org/licenses/by/4.0/legalcode.de
Other 3D illustrations: Manuel Köpp/Kammann Rossi GmbH

Translation:
media lingua translations GmbH, Berlin

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Key to Symbols

Basis of Preparation

Scope of Consolidation

Consolidated Income Statement Disclosures

Consolidated Balance Sheet Disclosures

Consolidated Cash Flow Statement Disclosures

Other Disclosures

Segment Information

Supplementary Disclosures

This report is available in German and English. Both versions are available on the Internet at www.deufol.com.

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