SIMONA

2021
GrowTogether

Group interim report for the first half of 2021

Group Interim Management Report

Group Interim Management Report

Group Interim Financial Statements

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Group Interim Management Report

1. BUSINESS REVIEW

1.1 Macroeconomic and sector-specific environment

The recovery of the global economy after the significant pandemic-induced recession in 2020 has been progressing along different lines within the respective regions and correlates closely with advances made in combating covid-19 in the individual economies.

These developments are reflected in the performance of the global economy over the course of the first quarter of 2021. China has already overcome the pandemic in economic terms. Its gross domestic product (GDP) grew by 18.3 per cent year on year in the first quarter of 2021 and by 7.9 per cent in the second quarter. This marks the highest level of economic expansion in 30 years. Growth was mainly driven by the export of technical products aimed at home-office work. In Europe, meanwhile, the second and third waves of infection in conjunction with the low rate of vaccination at the beginning of the year clearly left their mark. The economy contracted by 1.8 per cent compared to the first quarter of 2020, which had still been relatively unaffected by the pandemic. Economic output also declined by 0.6 per cent compared to the preceding quarter. In Germany, GDP fell significantly in the first quarter – mainly due to the far-reaching lockdown – compared to both the same quarter last year (–3.1 per cent) and the preceding quarter (–1.8 per cent). France (+1.2/–0.1 per cent) and Italy (–0.8/0.1 per cent) started the year in better shape. In Spain, economic output declined by 4.3 per cent compared to the same quarter last year and by 0.5 per cent compared to the previous quarter. The economy in the United States continued to grow over the course of the first quarter, due in part to the rapid success of local vaccination programs. GDP increased by 6.4 per cent in the first quarter of 2021 compared to the fourth quarter of 2020.

Revenue generated by the plastics processing industry in Germany rose by 9.6 per cent to €22.5 billion in the first four months of 2021, primarily as a result of buoyant exports. The chemical-pharmaceutical sector also started the year positively and has now returned to pre-crisis levels in terms of both revenue and production output. In the first quarter, revenue within the industry as a whole increased by 1.1 per cent and production output by 0.8 per cent compared to the same quarter last year. The mechanical engineering sector has also seen forward momentum around the globe. On average, EU-based machine manufacturers reported a 13 per cent increase in production in the first four months of 2021 compared to the same period last year. The global market for aircraft interiors continued to suffer from a lack of investment in new aeroplanes or retrofitting of existing aircraft. Revenue attributable to the German construction industry fell by 5.9 per cent from January to April 2021, mainly due to weather conditions and supply-side bottlenecks.

1.2 Course of business

In the first six months of 2021, the SIMONA Group generated sales revenue of €259.9 million in total. Compared to the first half of 2020 (€199.4 million), this represents an increase in revenue of 30.3 per cent. In the second quarter of 2021, revenue amounted to €138.4 million, which corresponds to an increase of 50.9 percent compared to the same quarter last year (€91.7 million). This figure includes revenue generated by SIMONA Stadpipe in Stadlandet, Norway, which was acquired effective from 1 July 2020, and SIMONA PLASTECH in Dücze, Turkey, which was acquired with effect from 1 February 2021.

Europe

The region comprising Europe saw sales revenue rise by 33.5 per cent to €174.9 million in the first half of the year (previous year: €131.0 million). This positive trend was driven primarily by buoyant demand in all areas of application, but especially in the industrial sector. This figure includes revenue generated by the acquired entities SIMONA Stadpipe and SIMONA PLASTECH, which were consolidated for the first time. The region encompassing Europe accounted for 67.3 per cent of total Group revenue, up from 65.7 per cent. EBIT within the segment covering Europe rose markedly, up from €10.7 million in the previous year to €16.2 million in the period under review.

Americas

The region comprising the Americas saw sales revenue increase by a solid 18.4 per cent in total, taking the figure to €65.9 million (previous year: €55.7 million). This was attributable mainly to the recovery within the industrial sector as well as buoyant demand for products manufactured by our US subsidiary SIMONA PMC within the area of bath/sanitary ware and caravanning. The aviation business, an area covered by our subsidiary SIMONA Boltaron, also showed slight signs of recovery following the slump experienced in the previous year. Owing to more pronounced growth in revenue from sales in Europe, the share of total revenue attributable to the Americas fell from 27.9 per cent to 25.4 per cent. EBIT within the segment covering the Americas more than doubled, up from €4.1 million in the previous year to €9.1 million in the period under review. EBIT includes a public grant of €2.5 million from the US government‘s Payroll Protection Program (PPP) to support companies during the covid-19 crisis.

Asia and Pacific

The region covering Asia and Pacific saw revenue grow to €19.1 million (previous year: €12.7 million). In this context, the Industry business line made the largest contribution on the back of buoyant demand in the industrial sector, especially within the semicon market – products for equipping semiconductor factories. The share of total revenues attributable to this region rose slightly from 6.4 per cent to 7.4 per cent. The Asia and Pacific segment recorded EBIT of €1.5 million (previous year: €–0.2 million).

Revenues within the business lines

Effective from 1 January 2021, the company‘s former divisional separation into the product areas of Semi-Finished Products and Pipes and Fittings was discontinued in favour of an application-oriented structure centred around business lines. As a result, these business lines will be included in reporting in the form of a secondary segment in future.

The Industry business line generated revenue of €120.4 million (previous year: €73.5 million), an increase of 63.8 per cent. The Advertisement & Building Industry business line achieved revenue of €35.8 million (previous year: €23.7 million; +51.1 per cent). The Infrastructure business line recorded an increase in revenue to €34.9 million (previous year: €28.2 million; +24.1 per cent). The Mobility business line generated revenue of €25.2 million (previous year: €22.2 million; +13.0 per cent). The remaining revenues from various other fields of application and trade are summarised under “Other” and amount to €43.6 million (previous year: €51.8 million). The deviation is predominantly due to the reallocation of customers from “Other” to other business lines during the year.

1.3 Financial performance

Earnings

Group earnings before interest and taxes (EBIT) for the first half almost doubled from €14.6 million in the previous year to €27.0 million in 2021. The EBIT margin rose from 7.3 per cent in the first half of 2020 to 10.4 per cent in the reporting period. Earnings before interest, taxes, depreciation and amortisation (EBITDA) expanded by €23.5 million to €36.1 million. The EBITDA margin improved from 11.8 per cent a year ago to 13.9 per cent in the period under review.

Group ROCE for the first half of 2021 stands at 7.4 per cent (previous year: 4.5 per cent); due to factors relating to the reporting date, ROCE as at 30 June 2021 is below the figure for the annual period as a whole (31 December 2020: 11.0 per cent), as expected.

Compared to the previous year, earnings performance in the first half of 2021 was dominated primarily by increases in earnings – in some cases significant – in all three regions. The segment covering “Europe” saw a marked improvement in earnings due to economies of scale based on increased volumes and efficiency improvements at the European plants. In addition, the European sales companies achieved positive operating results in the reporting period, which, with the exception of the subsidiary in Russia, are above the previous year‘s results. After the “Americas” segment posted a slump in earnings in the same period last year, earnings more than doubled in the first half of 2021. The bottom-line result includes a public grant from the US government‘s Payroll Protection Program (PPP) to support businesses during the covid-19 crisis. The “Asia and Pacific” segment also achieved noticeable earnings growth and made a positive contribution to earnings on the back of a prior-year result that was slightly in negative territory.

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Commodity prices have risen steadily and significantly in the first six months of 2021, reaching an interim high at the end of the second quarter. Energy expenses amounted to €5.8 million (previous year: €5.5 million) for the Group and remained unchanged at €3.9 million for SIMONA AG.

Staff costs stood at €47.1 million (previous year: €45.1 million).

At €9.1 million, depreciation and amortisation of intangible assets and property, plant and equipment was only slightly higher than in the previous year. As in the previous year, depreciation of right-of-use assets under lease arrangements amounted to €0.4 million.

At €38.3 million, other expenses were higher than in the previous year (€36.1 million). While operating costs (costs for temporary labour) as well as distribution costs (outbound freight, packaging) increased in line with more expansive production and growth in revenue, administrative costs (especially consulting expenses) decreased.

1.4. Financial position

Compared to 31 December 2020, total assets were up by €46.3 million to €494.7 million as at 30 June 2021.

Changes to assets

Intangible assets totalled €55.1 million (31 Dec. 2020: €40.4 million), mainly consisting of goodwill from the US acquisitions. The addition to goodwill from the acquisition of SIMONA PLASTECH, Turkey, as at 1 February 2021 amounted to €6.4 million.

Property, plant and equipment totalled €146.3 million (31 Dec. 2020: €140.8 million). Investments in property, plant and equipment amounted to €10.4 million within the Group. Depreciation and write-downs of property, plant and equipment stood at €7.8 million.

Inventories of raw materials and consumables (€46.0 million; 31 Dec. 2020: €31.5 million) as well as finished goods and merchandise (€59.9 million; 31 Dec. 2020: €52.4 million) were higher compared to the figures recorded at the end of 2020. This was the result of higher prices and stock volumes.

Compared to the previous year, trade receivables rose by €25.3 million to €88.6 million due to the larger volume of business. Compared to 31 December 2020 (€56.2 million), trade receivables rose by a significant €32.4 million due to factors relating to the end of the reporting period and revenue growth.

Other assets and tax assets totalled €13.2 million (31 Dec. 2020: €8.6 million). Cash and cash equivalents totalled €61.5 million at the end of the reporting period (31 Dec. 2020: €85.3 million; cf. statement of cash flows).

Changes to equity and liabilities

Equity and current liabilities increased in the period under review, while non-current liabilities were down.

Group equity totalled €248.9 million, which was higher compared to 31 December 2020 (€206.6 million). The period under review saw the dividend payment for the 2020 financial year (€7.2 million), contrasting with the inflow of profit for the period of €20.0 million. In addition, equity was up by €25.2 million overall at the end of the reporting period due to the revaluation of pension provisions as a result of an increase in the IFRS actuarial interest rate from 0.50 per cent as at year-end 2020 to 1.00 per cent as well as the increase in plan assets. The Group equity ratio rose to 50 per cent (31 Dec. 2020: 46 per cent) compared with the figure posted at the end of 2020. This was due to the factors outlined above.

Current and non-current provisions for pensions amounted to €124.0 million (31 Dec. 2020: €157.6 million). The reduction is attributable to the increase in the IFRS discount rate from 0.50 per cent at the end of 2020 to 1.00 per cent as at 30 June 2021.

Trade payables were up at €34.9 million in line with more expansive business (31 Dec. 2020: €17.4 million).

Non-current and current other provisions amounted to €6.1 million and were slightly above the year-end figure for 2020.

Current and non-current liabilities stood at €245.8 million in total, up €3.9 million on the figure recorded on 31 December 2020.

Investments

Group capital expenditure on property, plant and equipment amounted to €10.4 million in the period under review (previous year: €11.4 million). This relates primarily to investments in plant and machinery within the segment covering "Europe". The Group made net investments in property, plant and equipment amounting to €2.7 million (previous year: €3.8 million).

1.5. Financial management and cash flows

At the end of the reporting period, the Group had undrawn borrowing facilities of €20.6 million (31 Dec. 2020: €28.6 million) from domestic and foreign banks.

Cash and cash equivalents

Cash and cash equivalents fell by €23.8 million compared to 31 December 2020 and mainly consist of short-term bank deposits totalling €61.5 million (31 Dec. 2020: €85.3 million). The reduction was mainly attributable to the acquisition of SIMONA PLASTECH and negative operating cash flow in the short term due to higher raw material prices as well as an increase in trade receivables. These changes are presented in the statement of cash flows.

Cash flows

In the first half of the financial year, the outflow of cash from operating activities (gross cash flow) was €0.9 million (previous year: inflow of €26.8 million). Despite the increase in earnings, the outflows from the expansion of inventories and the increase in receivables from customers in particular were more pronounced. Net cash used in investing activities amounted to €25.4 million (previous year: outflow of €17.3 million), which includes €15.4 for a payment made with regard to the acquisition of an ownership interest in SIMONA PLASTECH, Turkey. The cash inflow attributable to financing activities was €1.6 million (previous year: outflow of €8.3 million) and mainly includes an inflow from the utilisation of existing credit lines as well as the dividend payment for the 2020 financial year.

Net finance cost

Based on finance income of €1.3 million and finance cost of €1.2 million, net finance income amounted to €0.1 million in the first half of 2021 (previous year: net finance cost of €–0.9 million). This figure includes a net foreign exchange gain of €0.6 million (previous year: loss of €–0.2 million).

1.6 Non-financial indicators

Employees

Since the beginning of the year, the SIMONA Group's total headcount has risen slightly by 75 to 1,508 (31 Dec. 2020: 1,433), in particular as a result of the corporate acquisition of SIMONA PLASTECH, Turkey. The number of staff employed in Germany was 797 (31 Dec. 2020: 799).

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2. EVENTS AFTER THE REPORTING PERIOD

Between the end of the first half of 2021 and the preparation of the consolidated interim report, no events of particular significance occurred that would necessitate a change to measurements or recognised amounts.

3. REPORT ON OPPORTUNITIES AND RISKS

3.1 Report on opportunities

In the short and medium term, the trend relating to opportunities and risks is strongly dependent on the restrictions implemented in response to covid-19 and the associated performance of the economy, which has improved significantly in specific regions.

The aviation business, in particular, may be exposed to significant additional risk as a result of the covid-19 crisis. Due to the (temporary) discontinuation of connections by air freight operators, there may be further shortages and delays within the logistics sector. The commodity markets have posed one of the most significant risks in 2021 to date – and this is likely to continue. This relates to both the passing on of commodity price increases in an intensely competitive environment and the availability of raw materials.

The debate on the environmental impact of plastics, particularly in Europe, may have a negative effect not only on business but also on the recruitment of skilled personnel. The discussion surrounding CO_2 emissions from aircraft could have a detrimental effect on the market for aircraft interiors in the long term.

The use of plastics offers opportunities as a cost-effective alternative to replace heavier materials, for example in mobility applications, thus reducing CO_2 emissions or enabling the treatment of drinking water or the transport of renewable energies over long distances. These areas of application call for highly functional plastics with customised properties. SIMONA‘s strategy is aimed at continuously evolving product characteristics from a technological perspective by leveraging its in-house R&D capabilities, in addition to extending its portfolio of materials.

In Europe, strategic projects are being implemented for the purpose of increasing efficiency and competitiveness and thus expanding the opportunities for growth. Effective from 1 January 2021, SIMONA introduced a new organisational structure for its business activities in Europe, the Middle East and Africa (EMEA). This involved discontinuing the company‘s former divisional separation into the product areas of Semi-Finished Products and Pipes and Fittings in favour of an application-oriented structure centred around business lines. The principal goals are to raise the company‘s competitiveness through improved efficiency, closer dialogue with end users and better customer service, in addition to pressing ahead with efforts to enter new fields of application.

The acquisition of the Turkish manufacturer of PVC foam sheets MT Plastik AS, Düzce/Turkey (company name changed in SIMONA PLASTECH), effective from 1 February 2021 will deliver more far-reaching opportunities for profitable growth in the market for digital printing and building applications. The acquisition of SIMONA Stadpipe AS in Norway offers growth opportunities within the globally expanding market for fish farms. In the United States, the subsidiary SIMONA Boltaron boasts a tailor-made product range that meets exacting design standards relating to aircraft interiors. This expertise can also be applied to other fields of application. At the same time, however, the direction taken by the company‘s aviation business is heavily dependent on the further course of the covid-19 pandemic. SIMONA also sees good potential in the market for thermoforming applications as well as for outdoor furniture made of plastic and the boatbuilding sector. Newly developed products with antibacterial settings also offer opportunities within the increasingly important market centred around infection control. In the medium term, the USA also offers opportunities within the area of pipes and fittings for industrial applications.

In the region covering Asia-Pacific, SIMONA sees good opportunities with regard to key technologies centred around environmental management, semiconductors and chemical process industries.

Overall, SIMONA is of the opinion that the potential for opportunities remains at a good level. Compared to the previous year, the opportunities for SIMONA's business have improved slightly due to the diminishing impact of the pandemic.

3.2 Risk report

Risk management system

In view of their global business activities, both SIMONA AG and the SIMONA Group are exposed to a wide range of risks. In this context, risk is defined as an event, an action and/or the failure to act with the potential for adverse effects on the company. Risk strategy is an integral part of the corporate strategy of SIMONA and coexists alongside the business strategy. The risk culture of SIMONA is characterised by risk awareness in respect of decision-making processes and embraces the principles of diligent action based on prudence. In identifying opportunities at an early stage and applying diligence with regard to the exposure to corporate or business risks, SIMONA endeavours to safeguard its existence as a going concern and protect its enterprise value. Risk controlling is aimed at avoiding, mitigating or transferring risks. All remaining risks are managed accordingly by SIMONA. Risks are communicated as part of half-yearly risk reports to the Management Board and the Supervisory Board.

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

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

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

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

SIMONA considers the following individual risks to be material:

- Macroeconomic and sales market risks
- Business strategy risks
- Financial risks
- Risks attributable to procurement and purchasing
- Investment risks
- Risks attributable to information technology

Macroeconomic and sales market risks

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

The Group continues to be exposed to significant geopolitical risks. At a global level, ongoing debate surrounding plastics and the environment continues to pose risks. Within the segment covering Europe, measures aimed at combating the pandemic as well as the impact of Brexit are still to be seen as key risks relating to the business environment and industry. In the Americas, meanwhile, risk exposure is also being influenced by anti-pandemic measures as well as by the future economic and political stance assumed by the United States and movements in the US dollar exchange rate. In the Asia and Pacific segment, meanwhile, the principal risks are attributable to future political relations and the direction taken by the trade dispute between the USA and China. As regards the aspect of changes to sales markets, the decline in revenue in the medium term is projected at approx. €5.0 to 10.0 million, with a probability of occurrence of under 50 per cent.

Business strategy risks

In particular, they include the risk of misjudging future market developments and are estimated to result in revenue shortfalls of around EUR 5.0 to 10.0 million. Measures aimed at risk prevention mainly include close monitoring of the market and competitive environment as well as regular strategy meetings with key accounts and between the company‘s senior management and sales organisation. The probability of adverse effects occurring from exposure to business strategy risks is at present not considered to be material.

Financial risks

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

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

Dependence on the euro within the Group was scaled back through the corporate acquisitions in recent years as well as the steady expansion of production and the company‘s market position in the United States. At the same time, currency risk relating to US dollar transactions remains high for SIMONA. In the medium term, the probability of occurrence of a dilutive or accretive effect on earnings equivalent to €3.0 to 6.0 million is estimated at over 50 per cent. The economic risks of a projected global recession as a result of the covid-19 crisis and the resulting decline in investment activity within the industrial sector have decreased.

The risk of bad debts and insolvencies is markedly higher due to the covid-19 pandemic. In this context, thorough assessments of credit ratings and continuous monitoring within this area help to mitigate risk as a whole as well as risk associated with individually identifiable items. At €0.8 million, as in the previous year the potential risk roughly corresponds to the value of receivables of SIMONA AG in the Europe segment that are more than 60 days overdue. As regards transactions in Russia, a specific directive for the conclusion of business agreements relating to this country is in place for the purpose of limiting associated risks. Default-related risk associated with specific customers is limited by credit insurance and the cut-off of deliveries in the case of outstanding payments. In addition, there are the risks with regard to voidability of insolvency, which are covered by appropriate insurance. The carrying amounts of inventories are assessed on a regular basis, and adjustments in the form of allowances are made for specific unsaleable products.

Risks relating to interest rates are deemed to be more pronounced. Interest payable in connection with KfW loans is based on fixed interest rates. Therefore, there are no risks associated with interest rate changes in this area. The overdraft facilities of SIMONA AG, with floating interest rates calculated on the basis of EONIA (Euro

Overnight Index Average), were, in part, not being utilized at the end of the reporting period. The interest rate risk attributable thereto is estimated to be immaterial.

The risks associated with occupational pension schemes are considered to be significant and the probability of their occurrence is deemed to be high. Risks that are difficult to gauge in the long term, such as future levels of pay and pensions as well as risks relating to higher life expectancy, have been categorised as material. They also include risks or encumbrances that are difficult to predict with regard to liquidity and equity, risks associated with investments and volatility of plan assets as well as fluctuating costs in respect of higher contributions currently expected for the German Pensionssicherungsverein. The volatility of plan assets is estimated at around €3 to 10 million, which is attributable primarily to the share performance of SIMONA AG stock in recent years. Plan assets were significantly higher at the end of the reporting period. SIMONA AG shares were up €11.2 million year on year.

Risks attributable to procurement and purchasing

In the first half of the year, supply chains around the world were faced with a challenging situation; outages with regard to the supply of raw materials and additives were exceptionally high compared to previous years. Due to production downtime at many raw material and additive manufacturers, the commodity market as a whole saw a deterioration in the overall level of availability. The direction taken by input commodities (naphtha, propylene and ethylene) that are of relevance to raw materials used by SIMONA closely mirrored the surge in crude oil prices. Correspondingly, commodity prices have risen significantly in the course of the reporting year.

The procurement situation in Europe at the beginning of the 2021 financial year was characterised by an unstable supply of raw materials, extremely strong demand and, as a result, noticeable supply-side bottlenecks. Europe has seen a number of plant disruptions as well as production cutbacks and maintenance shutdowns, primarily for standard thermoplastics such as polyethylene, polypropylene and PVC as well as their input commodities. The winter storm in Texas had a severe impact, causing significant long-term damage to refineries and petrochemical plants in the United States. This has had a noticeable effect on supply-side shortages in the US – lasting well into the summer of 2021. We expect industrial demand to remain strong in the third and fourth quarters of 2021, while the supply situation is likely to improve at persistently high price levels.

Investment risks

Investment risks mainly include the risk of misinvestment in machinery and in foreign investments. Potential investment risks are currently estimated at around €10.0 to 15.0 million and a probability of just under 50 per cent.

Risks attributable to information technology

Ongoing monitoring and optimisation of existing information technology are essential to the safety and reliability of business processes. With this in mind, refinements to measures already implemented within the area of information security are considered particularly important. The primary risks involved relate to the availability, reliability and efficiency of information technology systems, including a failure of the IT infrastructure, loss of data and attacks on IT systems. SIMONA addresses risks relating to information technology through an in-house IT department as well as by commissioning specialised companies and making regular investments in hardware and software. SIMONA responds to growing demands placed on system protection as part of its safety management programme. This mainly includes investments in the latest firewall and antivirus systems as well as other software systems. A significant loss in revenue caused by a temporary system failure is estimated at around €10.0 million. The probability of occurrence of external attacks on IT systems, in particular, has increased further.

In our assessment, the Group‘s overall risk situation compared to the end of the 2020 financial year is essentially unchanged, although it should be noted that the covid-19 crisis may have a significant impact that cannot be reliably predicted at present. At the time of preparing this report, there were no identifiable risks that might jeopardise the existence of the SIMONA Group and SIMONA AG as a going concern.

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4. REPORT ON EXPECTED DEVELOPMENTS

Economic conditions

The key indicators relating to global economic performance continue to be positive. Global industrial production and global trade have edged up beyond their pre-crisis levels. The International Monetary Fund (IMF) expects the global economy to expand by 6.0 per cent in 2021. The IMF forecasts growth of 4.4 per cent for the euro area. GDP in the USA is expected to rise by an above-average 6.4 per cent. China's economy is predicted to grow by 8.4 per cent. The key risks for the industrial sector are a shortage of raw materials and primary products such as semiconductors and wood, whose prices have risen sharply.

Sector-specific conditions

According to a survey conducted by the German Plastics Processing Industry Association (GKV), 52 per cent of the companies expect revenues to increase in 2021, 16 per cent predict that they will remain unchanged and 33 per cent expect them to decrease. Following the positive start to the year, the German Chemical and Pharmaceutical Industry Association (VCI) expects an increase in both production output (forecast: +4.5 per cent) and industry revenue (forecast: +8.0 per cent). The mechanical engineering industry in Germany is likely to see production output expand by 11 per cent. The VDMA association has thus revised upwards its forecast from the spring by a significant margin. The market for aircraft interiors will not return to its pre-crisis level this year or next. According to industry forecasts, revenues generated by the German construction industry will decline by 2.0 per cent this year, mainly due to more pronounced bottlenecks relating to materials.

Future performance

We expect business in the second half of the year to remain stable given the favourable assessment of both macroeconomic and sector-specific performance. On this basis, we are revising upward our revenue forecast for 2021 to a level of between €495 million and €505 million. This will be significantly influenced by future trends with regard to commodity prices and the ability to pass higher prices on to our customers. We maintain our estimate of achieving the projected EBIT margin of 6–8 per cent at the upper end of the specified range.

Forward-looking statements and forecasts

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

Responsibility Statement

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

Kirn, July 2021

SIMONA Aktiengesellschaft
The Management Board

Matthias Schönberg   Dr. Jochen Hauck   Michael Schmitz

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Group Income Statement of SIMONA AG for the first half of 2021

in € '000	Note	01/01/–30/06/2021	01/01/–30/06/2020
Revenue		259,907	199,410
Other income		4,759	3,710
Changes in inventories of finished goods and work in progress		2,804	2,316
Cost of materials		145,984	100,746
Staff costs		47,053	45,083
Amortisation/write-downs of intangible assets and depreciation/write-downs of property, plant and equipment as well as right-of-use assets under leases		9,134	8,990
Other expenses		38,334	36,064
Earnings before interest and taxes (EBIT)		**26,964**	**14,553**
Finance income		1,284	741
Finance costs		1,220	1,688
Result from investments accounted for using the equity method		0	123
Earnings before taxes (EBT)		**27,028**	**13,729**
Income taxes	[5]	7,066	3,856
Profit for the period		**19,963**	**9,873**
Of which attributable to:			
Owners of the parent company		19,999	9,813
Non-controlling interests		–36	60

EARNINGS PER SHARE: IN €

in EUR			
– basic, calculated on the basis of profit for the period attributable to ordinary shareholders of the parent company		33.33	16.35
– diluted, calculated on the basis of profit for the period attributable to ordinary shareholders of the parent company		33.33	16.35

Group Statement of Comprehensive Income of SIMONA AG for the first half of 2021

in € '000	Note	01/01/ – 30/06/2021	01/01/ – 30/06/2020
Profit for the period		**19,963**	**9,873**
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit obligations		35,676	–4,221
Deferred taxes on remeasurement of defined benefit obligations		–10,517	1,244
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating financial statements of subsidiaries		–370	–1,133
Exchange differences on translating net investments		728	115
Deferred taxes from currency translation		–183	9
Other comprehensive income recognised directly in equity		**25,334**	**–3,985**
Total comprehensive income		**45,297**	**5,887**
Total comprehensive income attributable to:			
Owners of the parent company		45,517	5,846
Non-controlling interests		–220	41

Group Statement of Financial Position of SIMONA AG for the first half of 2021

ASSETS

in € '000	Note	30/06/2021	31/12/2020
Intangible assets		55,127	40,409
Property, plant and equipment	[7]	146,328	140,808
Financial assets		340	340
Investments accounted for using the equity method		1,119	1,119
Right-of-use assets under leases		2,328	1,780
Deferred tax assets		17,575	27,768
Non-current assets		**222,817**	**212,223**
Inventories	[8]	108,359	84,893
Trade receivables		88,586	56,158
Other assets		9,622	5,750
Income tax assets		3,552	2,805
Other financial assets		299	1,298
Cash and cash equivalents	[9]	61,512	85,349
Current assets		**271,929**	**236,253**
Total assets		**494,747**	**448,476**

EQUITY AND LIABILITIES

in € '000	Note	30/06/2021	31/12/2020
Equity attributable to owners of the parent company			
Issued capital		15,500	15,500
Capital reserves		15,274	15,274
Revenue reserves		210,160	172,401
Other reserves		993	818
		241,927	**203,993**
Non-controlling interests		7,012	2,612
Equity		**248,939**	**206,604**
Financial liabilities		6,717	8,430
Provisions for pensions		122,220	155,814
Other provisions		4,088	4,061
Liabilities under leases		1,668	1,051
Other financial liabilities		8,196	8,659
Deferred tax liabilities		13,081	10,872
Non-current liabilities		**155,971**	**188,887**
Financial liabilities		14,391	3,425
Provisions for pensions		1,773	1,773
Other provisions		1,979	1,723
Trade payables		34,903	17,426
Income tax liabilities		6,369	7,035
Liabilities under leases		719	752
Other financial liabilities		302	1,989
Other liabilities		29,402	18,862
Current liabilities		**89,838**	**52,985**
Total equity and liabilities		**494,747**	**448,476**

Group Statement of Cash Flows of SIMONA AG for the first half of 2021

in € '000	Note	01/01/ – 30/06/2021	01/01/ – 30/06/2020
Earnings before taxes (EBT)		27,028	13,729
Income taxes paid		–9,148	–1,448
Finance income and cost (excl. interest expense relating to pensions)		99	91
Amortisation/write-downs of intangible assets and depreciation/write-downs of property, plant and equipment as well as right-of-use assets under leases		9,134	8,990
Other non-cash expenses and income		–952	2,103
Result from disposal of non-current assets		40	36
Change in inventories		–21,243	–4,330
Change in trade payables		–29,278	–3,978
Change in other assets		–2,623	928
Change in pension provisions		2,474	2,070
Change in liabilities and other provisions		23,551	8,642
Net cash used in/from operating activities		**–918**	**26,833**
Investments in intangible assets and property, plant and equipment		–10,388	–11,406
Acquisition of subsidiaries and other business units less net cash acquired	[12]	–15,397	–6,015
Proceeds from the disposal of non-current assets		335	44
Interest received		42	63
Net cash used in investing activities		**–25,408**	**–17,314**
Proceeds from borrowings		10,966	0
Repayment of financial liabilities		–1,713	–1,713
Repayment of lease liabilities		–374	–457
Payment of prior-year dividend	[6]	–7,200	–6,000
Payment of prior-year dividend to non-controlling interests		0	–55
Interest paid		–123	–68
Net cash from/used in financing activities		**1,556**	**–8,294**
Effect of foreign exchange rate changes on liquidity		933	–402
Change in cash and cash equivalents		**–23,837**	**823**
Cash and cash equivalents at 1 January		85,349	68,399
Cash and cash equivalents at 30 June		61,512	69,222
Change in cash and cash equivalents		**–23,837**	**823**

Group Statement of Changes in Equity of SIMONA AG for the first half of 2021

in € '000	Note	Issued capital	Capital reserves	Revenue reserves	Other reserves: Currency translation differences	Total	NON-CONTROLLING INTERESTS	TOTAL EQUITY
		EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY						
Balance at 01/01/2020		**15,500**	**15,274**	**173,846**	**11,206**	**215,826**	**464**	**216,290**
Amount recognised directly in equity as part of the Statement of Comprehensive Income		0	0	–2,976	–990	–3,966	–19	–3,985
Profit for the period		0	0	9,813	0	9,813	60	9,873
Total comprehensive income		**0**	**0**	**6,836**	**–990**	**5,846**	**41**	**5,887**
Dividend payment	[6]	0	0	–6,000	0	–6,000	–55	–6,055
Other changes		0	0	–360	–19	–379	–29	–408
Balance at 30/06/2020		**15,500**	**15,274**	**174,322**	**10,198**	**215,293**	**421**	**215,714**
Balance at 01/01/2021		**15,500**	**15,274**	**172,401**	**818**	**203,993**	**2,612**	**206,604**
Amount recognised directly in equity as part of the Statement of Comprehensive Income		0	0	25,159	358	25,517	–184	25,334
Profit for the period		0	0	19,999	0	19,999	–36	19,963
Total comprehensive income		**0**	**0**	**45,158**	**358**	**45,517**	**–220**	**45,297**
Dividend payment	[6]	0	0	–7,200	0	–7,200	0	–7,200
Changes in the scope of consolidation	[12]	0	0	0	0	0	4,944	4,944
Other changes		0	0	–199	–184	–383	–324	–707
Balance at 30/06/2021		**15,500**	**15,274**	**210,160**	**993**	**241,927**	**7,012**	**248,939**

Grow
Together

Notes to the condensed consolidated interim financial statements of SIMONA AG for the first half of 2021

[1] Company information

SIMONA AG is a stock corporation (Aktiengesellschaft) founded in Germany – registered office at Teichweg 16, 55606 Kirn, Germany. Its shares are traded within the General Standard of the Frankfurt and Berlin Stock Exchanges. On 2 June 2021, the virtual Annual General Meeting of SIMONA AG approved a share split at a ratio of 10 to 1, as proposed by the Management Board. The number of shares in circulation will therefore increase from 600,000 to 6,000,000 shares. The application for the share split was filed with the Commercial Register, but had not yet been registered by the time these Notes were prepared. The company has been entered in the Commercial Register at the District Court of Bad Kreuznach (HRB 1390).

These condensed consolidated interim financial statements (consolidated interim financial statements) for the first half of 2021 were released for publication on 20 July 2021, following a resolution passed by the Management Board.

[2] Statement of compliance and basis of preparation

The consolidated interim financial statements for the first half of 2021 have been prepared in accordance with the provisions of IAS 34 "Interim Financial Reporting" and, under Section 315a (1) HGB, pursuant to International Financial Reporting Standards (IFRS), to which they comply.

The consolidated interim financial statements have been prepared in euro. The reporting period covers the period from 1 January 2021 to 30 June 2021. The consolidated annual financial statements as at 31 December 2020 provide the basis for the consolidated interim financial statements, and reference shall be made to the aforementioned consolidated annual financial statements for further information.

For computational reasons, the tables presented in this document may include rounding differences equivalent to +/– one unit (€, %, etc.).

Summary of significant accounting policies

The accounting principles applied are consistent with those adopted in the previous financial year and with regard to the associated interim period.

Scope of consolidated financial statements

The consolidated group has changed as follows compared to 31 December 2020: MT Plastik AS, Dücze, Turkey, was fully consolidated for the first time with effect from 1 February 2021 and renamed SIMONA PLASTECH Levha Sanayi Anonim Şirketi.

As part of the restructuring of the Asia segment, the ownership interests in SIMONA ASIA PACIFIC PTE. LTD., Singapore, Singapore, were transferred from SIMONA AG, Kirn, Germany, to SIMONA ASIA Limited, Hong Kong, China, at book value.

As at 30 June 2021, alongside the parent company the consolidated interim financial statements comprised 37 domestic and foreign entities.

[3] Seasonal effects on business activities

Owing to seasonal factors, all business segments are generally expected to generate lower revenue and lower operating results in the second half of the year than in the first six months. Lower revenue is mainly attributable to declining demand in the principal holiday months of July and August, as well as reduced customer inventory levels towards the end of the calendar year (December).

[4] Segment reporting

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

- Europe
- Americas
- Asia and Pacific

All three segments generate their revenues mainly through the sale of semi-finished plastics and pipes, as well as fittings.

Management assesses earnings before interest and taxes (EBIT) of these segments for the purpose of making decisions as to the distribution of resources and determining the profitability of the business units. Segment profitability is determined on the basis of operating results from operating activities before the effects of financing activities and excluding income tax effects.

As a matter of course, segment information is based on the same principles of presentation and the same accounting policies as those applied to the consolidated interim financial statements. Receivables, liabilities, revenues and expenses as well as profit/loss between the individual segments are eliminated as part of reconciliation. Internal transfer pricing between the business segments is determined on the basis of competitive market prices charged to unaffiliated third parties (regular way transaction). External sales revenue relates to the registered office of the revenue-generating business unit. Capital expenditure relates to additions to intangible assets as well as property, plant and equipment. Segment assets comprise assets that contribute to the achievement of operating profit. Depreciation/amortisation and write-downs relate to both intangible assets and property, plant and equipment.

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

SEGMENT INFORMATION BY REGION FOR THE FIRST HALF OF 2021

	Europe		Americas		Asia and Pacific		Total	
in € ,000	2021	2020	2021	2020	2021	2020	2021	2020
Revenues from external customers	174,894	131,018	65,876	55,649	19,137	12,741	259,907	199,409
Revenues from other segments	4,378	4,204	128	107	0	0	4,505	4,310
Segment revenues	**179,271**	**135,222**	**66,004**	**55,756**	**19,137**	**12,741**	**264,412**	**203,719**
Other income	2,870	3,103	2,506	134	987	1,067	6,363	4,303
Cost of materials	100,342	71,200	36,136	25,439	14,007	8,408	150,484	105,048
Staff costs	33,306	30,216	11,702	13,127	2,045	1,740	47,053	45,083
Depreciation, amortisation and write-downs	5,856	5,291	2,509	2,902	770	797	9,134	8,990
Other expenses	28,304	24,650	9,708	9,967	1,937	2,035	39,949	36,652
Earnings before interest and taxes (EBIT)	16,186	10,694	9,094	4,144	1,460	–203	26,741	14,635
Earnings before taxes (EBT)	16,179	10,509	8,962	3,940	1,673	–605	26,814	13,844
Segment capital expenditure	7,430	7,862	2,345	3,189	613	355	10,388	11,406
Non-current assets	116,180	93,598	77,933	83,813	9,671	9,742	203,784	187,154

NOTES TO GROUP INCOME STATEMENT

[5] Income taxes

The principal components of income tax expense reported in the consolidated income statement are as follows:

GROUP INCOME STATEMENT

in € ,000	2021	2020
Current tax		
Current tax expense	7,295	4,671
Adjustments of current tax attributable to previous periods	224	–8
Deferred tax		
Origination and reversal of temporary differences	–514	–1,035
Change in loss carryforwards and tax credits recognised	61	225
Income tax expense reported in Group income statement	**7,066**	**3,856**

[6] Dividend paid

In the first half-year 2021 the virtual Annual General Meeting of Shareholders passed a resolution on 2 June 2021 for a dividend of €12.00 per share (prev. year: €10.00 per share) for all ordinary shares attributable to the parent company. The amount was paid out on 7 June 2021.

NOTES TO THE GROUP STATEMENT OF FINANCIAL POSITION

[7] Property, plant and equipment

In the period from 1 January to 30 June 2021, the Group purchased property, plant and equipment at a cost amounting to €10,383 thousand (prev. year: €11,406 thousand), in addition €2,428 thousand was attributable to first-time consolidation.

	Reconciliation		Group
2021	2020	2021	2020
0	0	259,907	199,410
–4,505	–4,310	0	0
–4,505	**–4,310**	**259,907**	**199,410**
–1,604	–594	4,759	3,710
–4,500	–4,302	145,984	100,746
		47,053	45,083
		9,134	8,990
–1,614	–588	38,334	36,064
223	–83	26,964	14,553
214	–115	27,028	13,729
		10,388	11,406
		203,784	187,154

Other income includes gains of €5 thousand (prev. year: €33 thousand) from the disposal of property, plant and equipment; other expense includes losses of €44 thousand (prev. year: €69 thousand) from the disposal of property, plant and equipment.

[8] Inventories

Compared to 31 December 2020, the amount attributable to inventory impairments rose by €663 thousand to €10,247 thousand in the first half of 2021.

[9] Cash and cash equivalents

For the purpose of preparing a cash flow statement, cash and cash equivalents shall be comprised of the following items:

in € ,000	30/06/2021	30/06/2020
Cash and cash equivalents	61,512	69,222
Current financial liabilities (overdraft)	–10,966	0
	50,546	**69,222**

OTHER INFORMATION

[10] Other financial commitments

As at 30 June 2021, purchase commitments arising from investment projects amounted to €6,524 thousand (prev. year: €8,026 thousand), while commitments relating to raw material orders totalled €34,138 thousand (prev. year: €9,808 thousand).

[11] Related-party disclosures

As part of its operating activities, SIMONA AG provides various services for the subsidiaries included in the consolidated interim financial statements. Conversely, the respective Group companies render services within the SIMONA Group in the context of their business purpose. These business transactions relating to the supply of goods and the rendering of services are made at market prices.

The composition of related parties of the SIMONA Group changed due to the acquisition of SIMONA PLASTECH Levha Sanayi Anonim Şirketi. The minority representatives are involved in the management of companies that purchase products from SIMONA PLASTECH Levha Sanayi Anonim Şirketi. Standard market sales prices were agreed in respect of long-term supply contracts. Within the scope of these transactions, revenues of €3,462 thousand have been generated since 1 February 2021. In addition, receivables of €2,003 thousand and liabilities of €13 thousand existed with these companies as at 30 June 2021.

[12] Corporate acquisitions

Effective from 1 February 2021, the Group acquired 70.00 per cent of the voting equity interests in MT Plastik AS, a non-listed entity headquartered in Dücze, Turkey. During the first half of 2021, the company was renamed SIMONA PLASTECH Levha Sanayi Anonim Şirketi.

SIMONA PLASTECH Levha Sanayi Anonim Şirketi adds new and established products to the portfolio and unlocks potential in the field of construction and advertising applications under the umbrella of the newly formed Advertisement and Building Industry business line. In making this acquisition, SIMONA aims to become a market leader in the business segment of PVC foam sheets with regard to quality, breadth of product range and market share.

The following information is taken from the preliminary Purchase Price Allocation.

The consideration (purchase price) amounts to a total of €15,414 thousand and was paid in full in cash. There are no outstanding or contingent purchase price payments. The payment for the acquisition less acquired net cash and plus repaid bank loans amounts to €16,519 thousand. The following disclosures resulting from the purchase price allocation show the values of the principal groups of acquired and identifiable assets and liabilities at the acquisition date: intangible assets of €16,215, property, plant and equipment of €855 thousand, inventories of €1,157 thousand, trade receivables from customers of €2,664 thousand and other assets of €189 thousand, cash and cash equivalents of €17 thousand, trade payables and other liabilities of €2,797 thousand. The gross value of the acquired customer receivables amounts to €2,664 thousand. No impairments or uncollectible receivables were identifiable at the date of acquisition. Intangible assets were attributable mainly to customer relationships as well as production technology and brands. The Group applies the full goodwill method and has therefore recognised the entire goodwill resulting from the purchase price allocation in the amount of €6,419 thousand. It includes non-separable intangible assets such as expertise relating to personnel as well as anticipated synergy effects from the product portfolio and sales. Goodwill is not tax-deductible in Turkey.

The equity share of the non-controlling shareholders amounts to €4,944 thousand at the time of acquisition. In the period from 1 February to 30 June 2021, the acquired company generated consolidated revenues of €5,991 thousand and a loss for the period (including the effects of purchase price allocation) of €–608 thousand. If the acquired company had been included in the consolidated financial statements since 1 January 2021, Group sales revenue would have been €6,888 thousand and the loss would have been €–544 thousand. The costs associated with the business combination total €162 thousand and are recognised in the income statement under other expenses.

[13] Events after the reporting period

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

[14] Disclosures relating to the covid-19 pandemic

In the Americas segment, government assistance of EUR 4,328 thousand was granted. The applications for the waiver of government assistance for SIMONA Boltaron Inc., SIMONA AMERICA Group Inc. and SIMONA PMC LLC have since been granted and the government assistance shown as other loans has been derecognised through profit or loss. The application of SIMONA AMERICA Industries LLC was approved on a provisional basis. The funds from government assistance remain in other loans until final approval.

The impairment tests in the 2020 interim report were not repeated for 2021 as the impact of the covid-19 pandemic is more predictable. The Management Board sees no indications of impairment.

[15] Disclosure in accordance with Section 37w (5) WpHG

The consolidated interim financial statements and the Group interim management report have been neither reviewed nor audited in accordance with Section 317 HGB.

[16] Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the consolidated interim financial statements, in accordance with German principles of proper accounting, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Kirn, July 2021

SIMONA Aktiengesellschaft
The Management Board

Matthias Schönberg Dr. Jochen Hauck Michael Schmitz

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