search result

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Karl Storz SE & Co. KG Tuttlingen	Accounting/ Financial Reports	Consolidated financial statements for the financial year from January 1, 2019 to December 31, 2019	15.12.2020

Karl Storz SE & Co. KG

Tuttlingen

Consolidated financial statements for the financial year from January 1, 2019 to December 31, 2019

Independent Auditor's Report

To Karl Storz SE & Co. KG

audit opinions

We have the consolidated financial statements of Karl Storz SE & Co. KG, Tuttlingen, and its subsidiaries (the Group) - consisting of the consolidated balance sheet as of December 31, 2019, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year from January 1 to December 31, 2019 and the notes to the consolidated financial statements, including the presentation of the accounting and valuation methods. In addition, we have audited the group management report of Karl Storz SE & Co. KG for the financial year from January 1 to December 31, 2019.

According to our assessment based on the knowledge gained during the audit

- The attached consolidated financial statements comply in all material respects with German commercial law and, in compliance with German generally accepted accounting principles, provide a true and fair view of the Group's net assets and financial position as of December 31, 2019 and of its results of operations for the financial year from January 1 to as of December 31, 2019 and
- the attached group management report as a whole provides an accurate picture of the group's position. In all material respects, this 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.

In accordance with Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any objections to the correctness of the consolidated financial statements and the group management report.

Basis for the test results

We conducted our audit of the consolidated financial statements and the group management report in accordance with Section 317 HGB, taking into account the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility under these regulations and principles is further described in the “Auditor's responsibility for the audit of the consolidated financial statements and group management report” section of our auditor's report. We are independent of the group companies in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe

Responsibility of the legal representatives for the consolidated financial statements and the group management report

The legal representatives are responsible for the preparation of the consolidated financial statements, which comply with the German commercial law provisions in all material respects, and for the fact that the consolidated financial statements, in compliance with the German principles of proper accounting, give a true and fair view of the asset, financial and earnings situation of the company mediated by the group. Furthermore, the legal representatives are responsible for the internal controls which they have determined to be necessary in accordance with German generally accepted accounting principles in order to enable the preparation of consolidated financial statements that are free from material - intentional or unintentional - misstatements.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility 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.

In addition, the executive directors are responsible for preparing the group management report, which as a whole provides a suitable view of the group's position and is consistent with the consolidated financial statements in all material respects, complies with German legal requirements and suitably presents the opportunities and risks of future development . Furthermore, the legal representatives are responsible for the precautions and measures (systems) they have deemed necessary to enable the preparation of a group management report in accordance with the applicable German legal provisions and to provide sufficient suitable evidence for the statements in the group management report can.

Auditor's responsibility for the audit of the consolidated financial statements and the group management report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material - intentional or unintentional - misstatements and whether the group management report as a whole provides a suitable view of the Group's position and, in all material respects, with the consolidated financial statements and is consistent with the findings obtained in the audit, complies with German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report which contains our audit opinions on the consolidated financial statements and on the group management report.

Adequate assurance is a high level of assurance, but is no guarantee that an audit conducted in accordance with Section 317 of the German Commercial Code, taking into account the German principles of proper auditing established by the Institut der Wirtschaftsprüfer (IDW) will always uncover a material misstatement. Misstatements may 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 made on the basis of these consolidated financial statements and group management report.

During the audit, we exercise professional judgment and maintain a critical attitude. Over and beyond

- We identify and assess the risks of material - intentional or unintentional - misstatements in the consolidated financial statements and in the group management report, plan and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and appropriate to serve as a basis for our audit opinions. The risk that essential
- Failing to detect misstatements is higher for violation than error, as violations may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;[]
- We gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and the precautions and measures relevant to the audit of the group management report in order to plan audit procedures that are appropriate in the given circumstances, but not with the aim of providing an audit opinion on the effectiveness of these to deliver systems;
- we evaluate the appropriateness of the accounting methods used by the legal representatives as well as the reasonableness of the estimated values and related disclosures presented by the legal representatives;
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that cast significant doubt on the Group's ability to continue as a going concern can raise. If we conclude that there is a material uncertainty, we are required to draw attention to the related disclosures in the consolidated financial statements and group management report in the auditor's report, or if this information is inappropriate, to modify our respective audit opinion. We base our conclusions 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 in such a way that the consolidated financial statements give a true and fair view of the assets, financial and results of operations of the Group;
- we obtain sufficient appropriate audit evidence for the accounting information of the companies or business activities within the group in order to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We bear sole responsibility for our audit opinions;
- Evaluate the consistency of the group management report with the consolidated financial statements, its legal compliance and the view of the group's position that it gives;
- we perform audit procedures on the future-oriented information presented by the legal representatives in the group management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not provide a separate audit opinion on the future-oriented information and the underlying assumptions. There is a significant unavoidable risk

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

Villingen-Schwenningen, June 6, 2020

Ernst & Young GmbH
auditing company

Nietzer, auditor

Busser, auditor

Consolidated balance sheet as of December 31, 2019

assets

			12/31/2018
	EUR	EUR	EUR
A. Fixed assets			
I. Intangible assets			
1. Purchased industrial property rights and similar rights	14,523,517		17.646.166
2. Goodwill	1.196.113		1,269,037
		15,719,630	18.915.203
II. Tangible assets			
1. Land and buildings	252,482,700		247.435.227
2. Technical installations and machines	22,373,643		19.405.211
3. Other equipment, fixtures and fittings	106.131.675		98.179.824
4. Payments on account and assets under construction	17,796,951		6,407,258
		398,784,969	371.427.520
III. financial investments			
1. Shares in affiliated companies	16,591		102,265
2. Investments in associated companies	403.207		219,618
3. Other holdings	630,772		449,819
4. Loans to associates	2,449,629		0
5. Investment securities	146.475.818		33,727,904
6. Other Loans	942,548		346,712
		150.918.565	34,846,318
B. Current Assets			
I. Inventories		318.031.849	302.392.532
II. Receivables and other assets			

			12/31/2018
	EUR	EUR	EUR
1. Trade accounts receivable	310.224.637		298.957.019
2. Claims against shareholders	6,002,387		499,336
3. Receivables from affiliated companies	413		0
4. Receivables from companies in which a participation is held	20,760		0
5. Receivables from related companies	1,921,438		1,889,953
6. Other Assets	49,653,439		73.695.411
		367.823.074	375.041.719
III. securities		19.119.025	12.465.806
IV. Cash on hand, bank balances, cheques		297.215.936	337.241.150
C. Prepaid expenses		11.904.520	10,926,311
D. Deferred tax assets		44,021,792	34.406.006
		1,623,539,360	1,497,662,565

liabilities

			12/31/2018
	EUR	EUR	EUR
A. Equity			
I. Equity Interests			
1. Complementary	0		0
2. Limited partners	148.824.520		148.824.520
		148.824.520	148.824.520
II. Retained Earnings			
1. Statutory Reserves	60.176.699		38.408.938
2. Other retained earnings	27,455,553		27,455,553
		87.632.252	65,864,491
III. Equity difference from currency translation		25,463,931	10,060,650
IV. Consolidated balance sheet profit		479.201.998	430.531.243
V. Non-Controlling Interests		6,661,512	7,633,210
		747.784.213	662.914.114
B. Provisions			
1. Provisions for pensions and similar obligations	18,869,504		17.138.416
2. Tax Provisions	14.158.362		14.211.470
3. Other Provisions	220.138.644		201.304.545
		253.166.510	232.654.431
C. Liabilities			
1. Promissory note loan	250,000,000		250,000,000
2. Liabilities to banks	16,997,414		20.054.186
3. Deposits Received on Orders	44,328,746		38,790,295
4. Trade Accounts Payable	55.751.901		53.242.002
5. Liabilities to shareholders	71.012.638		41.245.416
6. Liabilities to affiliated companies	0		87,580
7. Liabilities to companies in which an investment relationship exists	764,399		463,842
8. Liabilities to related companies	91.610.012		112.179.001
9. Other Liabilities	64,698,372		62.713.610
		595.163.482	578.775.932
D. Accruals and Accruals		27.425.155	23.318.088
		1,623,539,360	1,497,662,565

Consolidated income statement for 2019

		2018
	EUR	EUR
1. Revenue	1.896.104.183	1.709.513.727
2. Production costs of the services rendered to generate sales	-827.845.906	-750.251.187
3. Gross profit on sales	1.068.258.277	959.262.540
4. Selling Expenses	-565.819.862	-511.835.913
5. Research and Development Expenses	-103,494,982	-94.724.212
6. General Administrative Expenses	-221.747.342	-189.103.207
7. Other operating income	50.288.804	83.488.239
of which income from currency translation EUR 26,891,624 (previous year EUR 31,969,359)		
8. Other Operating Expenses	-45,537,835	-61.349.083
thereof expenses from currency translation EUR -33,698,322 (previous year EUR -38,902,678)		
9. Income from participations	326,783	436,824

		2018
	EUR	EUR
10. Results from associates	166,810	0
11. Income from other securities and loans classified as financial assets	954,770	117,791
12. Other Interest and Similar Income	4,765,994	2,272,245
thereof income from discounting EUR 128,752 (previous year: EUR 144,920)		
13. Depreciation of financial assets and marketable securities	-257.215	-44,388
14. Interest and Similar Expenses	-14.463.278	-13.723.805
thereof expenses from compounding EUR -673,787 (previous year: EUR -764,265)		
15. Income Taxes	-33,735,388	-30,633,654
16. Earnings after taxes	139.705.536	144.163.377
17. Other Taxes	-2,407,529	-2,371,286
18. Consolidated net income	137.298.007	141.792.092
19. Minority Profit	-1,012,842	-1,349,133
20. Loss Attributable to Minority Members	297,983	236,962
21. Consolidated net income excluding minority interests	136.583.148	140,679,921
22. Earnings Carry Forward	342,618,850	289.851.322
23. Consolidated retained earnings	479.201.998	430.531.243

Consolidated cash flow statement for 2019

	2019	2018
	kEUR	kEUR
1. Cash flow from operating activities		
period result	136,583	140,680
Depreciation (+)/write-ups (-) on fixed assets	56,165	39,564
Increase (+)/decrease (-) in long-term provisions	3,084	2,596
Increase (+)/decrease (-) in current provisions	17,428	17,701
Gain (-)/Loss (+) on disposals of assets	-1,386	167
Increase (-)/decrease (+) in inventories, trade receivables and other assets	-73,758	-99,917
Increase (+)/decrease (-) in trade payables and other liabilities	19.019	34,525
Other non-cash expenses (+)/ income (-)	11,377	19,611
Interest expense (+)/Interest income (-)	8,743	11,334
Expenses (+)/income (-) of exceptional magnitude or importance	0	-32,095
Other investment income (-)	-265	-437
Income tax expense (+)/income (-)	33,735	30,634
Deposits (+) relating to income of exceptional magnitude or importance	32,095	0
Income tax payments (-)	-48,728	-34.124
Cash generated from operations	194,092	130,239
2. Cash flow from investing activities		
Proceeds (+) from disposals of property, plant and equipment	13,192	1,470
Payments (-) for investments in property, plant and equipment	-86,619	-40,066
Proceeds (+) from disposals of intangible assets	446	272
Payments (-) for investments in intangible assets	-2,516	-1,840
Proceeds (+) from disposals of financial assets	3,236	100
Payments (-) for investments in financial assets	-118,692	-33,988
Interest Received (+)	3,273	1.137
Dividends received (+)	265	437
Cash flow from investing activities	-187,415	-72,478
3. Cash flow from financing activities		
Payments (-) from the repayment of (financial) loans	-3,252	-2,466
Payments (+) from received grants/benefits	1,552	3,858
Interest paid (-)	-7,688	-7,539
Change in shareholder accounts	-41,039	-44,818
Dividends paid to other shareholders (-)	-841	-456
Cash flow from financing activities	-51,268	-51,421
4. Cash funds at the end of the period		
Change in cash and cash equivalents (subtotals 1 - 3)	-44,592	6,340
Exchange rate-related change in cash and cash equivalents	4,371	-462
Cash funds at the beginning of the period	337.013	331.135
Cash funds at the end of the period	296,792	337.013
5. Composition of cash funds		
liquid funds	297,216	337,241
Liabilities to credit institutions due at any time	-424	-228
cash funds	296,792	337.013

Consolidated statement of changes in equity for 2019

	parent company capital shares		
	Complementary	limited partner	total
	EUR	EUR	EUR
As of 12/31/2017	0	148.824.520	148.824.520
Credit to shareholder accounts in borrowed capital	0	0	0
Allocation to/withdrawal from reserves	0	0	0
currency conversion	0	0	0
Other changes	0	0	0
Changes in the scope of consolidation	0	0	0
Consolidated net income	0	0	0
As of 12/31/2018	0	148.824.520	148.824.520
As of 12/31/2018	0	148.824.520	148.824.520
Credit to shareholder accounts in borrowed capital	0	0	0
Allocation to/withdrawal from reserves	0	0	0
currency conversion	0	0	0
Other changes	0	0	0
Changes in the scope of consolidation	0	0	0
Consolidated net income	0	0	0
As of 12/31/2019	0	148.824.520	148.824.520

	parent company retained earnings		
	Statutory Reserves	Other retained earnings	total
	EUR	EUR	EUR
As of 12/31/2017	21.413.106	27,455,553	48,868,659
Credit to shareholder accounts in borrowed capital	0	0	0
Allocation to/withdrawal from reserves	16,995,832	0	16,995,832
currency conversion	0	0	0
Other changes	0	0	0
Changes in the scope of consolidation	0	0	0
Consolidated net income	0	0	0
As of 12/31/2018	38.408.938	27,455,553	65,864,491
As of 12/31/2018	38.408.938	27,455,553	65,864,491
Credit to shareholder accounts in borrowed capital	0	0	0
Allocation to/withdrawal from reserves	21,767,761	0	21,767,761
currency conversion	0	0	0
Other changes	0	0	0
Changes in the scope of consolidation	0	0	0
Consolidated net income	0	0	0
As of 12/31/2019	60.176.699	27,455,553	87.632.252

	parent company			
	Equity difference from currency translation	profit carried forward	Consolidated net income attributable to the parent company	total
	EUR	EUR	EUR	EUR
As of 12/31/2017	-2,795,419	235.095.527	123.194.906	553.188.192
Credit to shareholder accounts in borrowed capital	0	-50,987,497	0	-50,987,497
Allocation to/withdrawal from reserves	0	-16,995,832	0	0
currency conversion	12.856.069	0	0	12.856.069
Other changes	0	122.739.124	-123.194.906	-455,782
Changes in the scope of consolidation	0	0		0
Consolidated net income	0	0	140,679,921	140,679,921
As of 12/31/2018	10,060,650	289.851.322	140,679,921	655.280.903
As of 12/31/2018	10,060,650	289.851.322	140,679,921	655.280.903
Credit to shareholder accounts in borrowed capital	0	-65.303.285	0	-65.303.285
Allocation to/withdrawal from reserves	0	-21,767,761	0	0
currency conversion	15.403.281	0	0	15.403.281
Other changes	0	139.838.574	-140,679,921	-841,347
Changes in the scope of consolidation	0	0	0	0
Consolidated net income	0	0	136.583.148	136.583.148
As of 12/31/2019	25,463,931	342,618,850	136.583.148	741.122.700

	Non-Controlling Interests			group equity
	shares of other shareholders	Profit and Loss Attributable to Other Shareholders	total	

	EUR	Non-Controlling Interests EUR	EUR	group equity EUR
	shares of other shareholders	Profit and Loss Attributable to Other Shareholders	total	
	EUR	EUR	EUR	EUR
As of 12/31/2017	5,538,624	982,413	6,521,036	559.709.229
Credit to shareholder accounts in borrowed capital	0	0	0	-50,987,497
Allocation to/withdrawal from reserves	0	0	0	0
currency conversion	0	0	0	12.856.069
Other changes	982,413	-982.413	0	-455,782
Changes in the scope of consolidation	3	0	3	3
Consolidated net income	0	1.112.171	1.112.171	141.792.092
As of 12/31/2018	6,521,040	1.112.171	7,633,210	662.914.114
As of 12/31/2018	6,521,040	1.112.171	7,633,210	662.914.114
Credit to shareholder accounts in borrowed capital	0	0	0	-65.303.285
Allocation to/withdrawal from reserves	0	0	0	0
currency conversion	0	0	0	15.403.281
Other changes	-574,386	-1.112.171	-1,686,557	-2,527,904
Changes in the scope of consolidation	0	0	0	0
Consolidated net income	0	714,859	714,859	137.298.007
As of 12/31/2019	5,946,654	714,859	6,661,512	747.784.213

Notes to the consolidated financial statements for 2019

General information

These consolidated financial statements were prepared in accordance with Sections 290 et seq. HGB.

The consolidated income statement is structured according to the cost of sales method.

For the sake of clarity and clarity of the consolidated financial statements, we have included some of the additional information required for individual items in the consolidated balance sheet and consolidated income statement in the notes.

Registry Information

The company is registered as Karl Storz SE & Co. KG with its registered office in Tuttlingen in the commercial register of the district court in Stuttgart under number HRA 450442.

scope of consolidation

The following companies were included in the consolidated financial statements by way of full consolidation, over which the company exercises direct or indirect control (the amount of the participation of KST is noted in each case in brackets, companies without an addition in brackets are 100% directly or indirectly owned the KST):

The company KSTE RP, founded in the reporting year, is included in the consolidated financial statements for the first time.

KSTE RP (99.99%)	KARL STORZ Endoscopy Philippines INC., Taguig City, Philippines

The companies remain essentially unchanged:

Almicro GmbH	ALMIKRO GmbH, Bad Krozingen
Almicro KG *	ALMIKRO GmbH & Co. KG, Bad Krozingen
Berk wood service *	A. Berkholz Service GmbH, Berlin
EFEMA *	Elzacher Feinmechanik GmbH, Elzach
EP *	Endo Press GmbH, Tuttlingen
KSA Delaware USA	Karl Storz America LLC., Delaware, USA
KSEA USA	Karl Storz Endoscopy-America Inc., El Segundo, USA
KSELA USA	Karl Storz Endoscopia Latino-America Inc., Miami, USA
KSESA (49.00%)	KSESA Medical And Surgical Skills Development (Pty.) LTD, Cape Town, South Africa
KSI USA	Karl Storz Imaging Inc., Goleta, USA
KSLA USA	Karl Storz Lithotripsy-America Inc., Kennesaw, USA
KSNDTec (85.50%)	Karl Storz NDTec GmbH, Walsdorf
KST*	Karl Storz SE & Co. KG, Tuttlingen
KST Berlin *	Karl Storz - Endoskope Berlin GmbH, Berlin
KST INV F	Karl Storz Invest France SASU, Guyancourt, France
COAST A	Karl Storz Endoskop Austria GmbH, Vienna, Austria
COAST OFF	Karl Storz Endoscopy Australia Pty. Ltd., Sydney, Australia
COAST B (99.60%)	Karl Storz Endoscopy Belgium NV, Etterbeek, Belgium
KSTE BR (99.97%)	KARL STORZ MARKETING AMÉRICA DO SUL Ltda., Sao Paulo, Brazil
COAST CDN	Karl Storz Endoscopy Canada Ltd., Mississauga, Canada
COAST CN	Karl Storz Endoscopy (Shanghai) Limited, Shanghai, China
COAST DK	Karl Storz Endoskopi Danmark A/S, Holte, Denmark
COAST E (99.80%)	Karl Storz Endoscopia Iberica, SA, Madrid, Spain
CSTE EMG (99.98%)	Karl Storz Endoskope - East Mediterranean and Gulf (Offshore) SAL, Beirut, Lebanon
COAST F	Karl Storz Endoscopie France SAS, Guyancourt, France

COAST FIN	Karl Storz Endoscopy Suomi Oy, Vantaa, Finland
KSTE GB	Karl Storz Endoscopy (UK) Ltd., Dundee, United Kingdom
COAST GR	KARL STORZ ENDOSCOPE GREECE MEPE, Thessaloniki, Greece
COAST H	KARL STORZ Endoszkóp Magyarország Kft., Budapest, Hungary
COAST HK	Karl Storz Endoscopy China Ltd., Hong Kong, China
COAST HR	Karl Storz Croatia doo, Zagreb, Croatia
COAST I	Karl Storz Endoscopia Italia SRL, Bolzano, Italy
COAST IND (99.99%)	Karl Storz Endoscopy India Pvt. Ltd., New Delhi, India
KSTE J	Karl Storz Endoscopy Japan KK, Tokyo, Japan
KSTE KZ	TOO Karl Storz Endoscopy Kazakhstan, Astana, Kazakhstan
COAST MEX (99.99%)	Karl Storz Endoscopia Mexico SA de CV, Mexico City, Mexico
COAST N	Karl Storz Endoskopi Norge AS, Hagan, Norway
COAST NL	Karl Storz Endoscopie Nederland BV, Vianen, The Netherlands
KSTE PL	KARL STORZ Polska Sp.Zoo, Gliwice, Poland
KSTE RA (95.00%)	Karl Storz Endoscopia Argentina SA, Vincente Lopez, Argentina
KSTE RL (99.99%)	Karl Storz Endoskope - Lebanon SAL, Beirut, Lebanon
KSTE RO (99.00%)	KARL STORZ Endoscopia Romania SRL, Bucharest, Romania
COAST ROK	KARL STORZ Endoskopy Korea Ltd., Seoul, South Korea
COAST RUSSIA	000 Karl Storz Endoskopy Wostok, Moscow, Russian Federation
COAST S	Karl Storz Endoskop Sverige AB, Skärholmen, Sweden
COAST SGP Asia	Karl Storz Endoscopy Asia Marketing Pte. Ltd., Singapore, Singapore
KSTE SGP Sales	Karl Storz Endoscopy Singapore Sales Pte. Ltd., Singapore, Singapore
COAST SLO	Karl Storz Endoscopija doo, Ljubljana, Slovenia
KSTE UA	TOV Karl Storz Ukraine, Kyiv, Ukraine
COAST ZA (86.74%)	Karl Storz Endoscopy (South Africa) (Proprietary) Limited, Cape Town, South Africa
KSVE EST	OU Karl Storz Video Endoscopy Estonia, Laagri, Estonia
KSVEA USA	Karl Storz Veterinary Endoscopy-America Inc., Goleta, USA
MTF USA	Medical Technology Finance Corp., El Segundo, USA
September**	Storz Endoskop Production GmbH, Tuttlingen
Viendis CH (51.00%)	Viendis AG, Uhwiesen, Switzerland

The companies marked with an asterisk (*) meet the conditions of Section 264 (3) and Section 264b HGB and make use of the exemption provision with regard to disclosure.

The companies marked with an asterisk (**) meet the conditions of Section 264 (3) HGB and make use of the exemption provision with regard to the preparation of a management report and with regard to disclosure.

A number of companies were also included, about which no information is given due to the threat of significant disadvantages.

Not included due to the application of Section 296 (2) HGB due to their minor importance (sales and annual results are less than 5% of consolidated sales or consolidated profit):

KSTE RC	Karl Storz Endoscopy Taiwan Ltd., New Taipei City, Taiwan

For the following companies, due to their minor importance (revenues < 5% of the group), the option in accordance with the application of Section 311 (2) HGB was exercised; accounting according to the equity method was omitted:

BTE (26.00%)	Bioscope Technologies Development GmbH, Viechtach
IRDC (26.00%)	IRDC GmbH International Reference and Development Center for Surgical Technology, Leipzig
VP F (24.98%)	Visible Patient SAS, Strasbourg, France
DV (7.25%)	Diaspective Vision GmbH, Am Salzhaff

We accounted for medi-G GmbH, Leibertingen (medi-G) (formerly Paul Peschke GmbH (PP)) at equity using the book value method at the time of acquisition in accordance with Section 312 (1) No. 1 HGB (old version). The stake in medi-G is 25% and is identical to the voting rights. As of December 31, 2019, there was an equity value of EUR 403 thousand to be accounted for in accordance with DRS 8 No. 27.

We accounted for OPCOS AG (OPCOS), Widnau, Switzerland, at equity using the book value method at the time of acquisition in accordance with Section 312 (1) No. 1 HGB. The stake in OPCOS is 40% and is identical to the voting rights. As of December 31, 2019, there was a negative equity value of EUR 65 thousand that was not to be recognized in accordance with DRS 8, item 27.

The accounting and valuation principles of the companies included using equity accounting do not differ significantly from those of the companies included in the consolidated financial statements of KST.

Accounting and valuation principles

The consolidated financial statements are prepared in accordance with the accounting standard of the German Commercial Code (HGB).

The financial statements of the companies included in the consolidated financial statements of KST and associated companies were prepared according to uniform accounting and valuation principles. For the preparation of these financial statements, the following accounting and valuation methods were essentially unchanged and decisive.

Realization and imparity principles were observed; Assets are valued at acquisition or production costs at most.

Acquired intangible fixed assets are recognized at acquisition or production cost and, if they are subject to wear and tear, are amortized over their useful life (software one to five years and patents and rights between three and 28 years; straight-line method).

Goodwill, including goodwill from the initial consolidation of shares, is amortized on a straight-line basis over a period of five to 15 years. Here, goodwill comes from the HB II financial statements, the remaining four from differences from the capital consolidation. The useful lives reflect the average product life cycles and customer loyalty periods.

Property, plant and equipment are stated at acquisition or production cost and, where depreciable, are reduced by scheduled depreciation. In addition to the individual costs, the manufacturing costs of self-constructed systems also include pro rata overheads and depreciation caused by production.

Property, plant and equipment are depreciated over their expected useful lives. Additions since January 1, 2008 are amortized on a straight-line basis. Additions to property, plant and equipment are depreciated on a pro rata basis.

Within financial assets, shares and securities are stated at the lower of cost or fair value. Investments in associated companies are generally accounted for at the proportionate net assets. Loans are generally stated at their nominal value.

Inventories are stated at acquisition or production cost or at the lower applicable value. The manufacturing costs include individual costs plus appropriate overhead costs. Write-downs for inventory risks resulting from the storage period and reduced marketability were made to an appropriate and sufficient extent.

Receivables and other assets are reported at their nominal value less value deductions for individual risks and for the general credit risk. Interest-free or low-interest receivables with a term of more than one year are discounted.

Related companies are those non-affiliated companies in which companies of the KARL STORZ Group or their shareholders hold the majority of the voting rights.

Marketable securities are stated at the lower of cost or, in accordance with Section 253 (4) HGB.

The provisions for pensions and similar obligations are calculated according to the projected unit credit method using the “2018 G mortality tables” from Prof. Dr. Klaus Heubeck determined. The average market interest rate of 2.71% (previous year: 3.21%) with a remaining term of 15 years was used for discounting in accordance with the provision discounting regulation of November 18, 2009. Country-specific interest rates were used for the foreign subsidiaries. Expected salary increases of 4.0% (previous year: 4.0%) were taken into account in Germany and in a range of 1.5% to 7.41% abroad. The expected increase in pensions was 1.5% in Germany (previous year: 1.0%) and abroad in a range from 1.0% to 44. 0% rated. Fluctuation was taken into account at a rate of 0.0% (previous year: 0.0%) in Germany and at a range of 1.79% to 4.25% abroad.

The tax provisions and other provisions take into account all contingent liabilities and impending losses from pending transactions. They are recognized at the amount required to be paid based on prudent business judgment (ie including future cost and price increases). Provisions with a remaining term of more than one year were discounted.

Liabilities are recognized at the settlement amount.

For the determination of deferred taxes due to temporary or quasi-permanent differences between the commercial law valuations of assets, liabilities and prepaid expenses and their tax valuations or due to tax loss carryforwards, the amounts of the resulting tax burden and relief are calculated using the company-specific tax rates at the time of the reduction of the differences valued and not discounted. Differences based on consolidation measures in accordance with Sections 300 to 307 HGB are also taken into account, but not differences from the first-time recognition of goodwill or a negative difference from capital consolidation.

Insofar as valuation units are formed in accordance with Section 254 HGB, the following accounting and valuation principles are applied:

Economic hedging relationships are accounted for by the formation of valuation units. In cases where both the "freezing method", in which the offsetting changes in value from the hedged risk are not accounted for, and the "passing through method", according to which the offsetting changes in value from the hedged risk of both the underlying transaction and the hedging instrument are accounted for can be applied, the freezing method is applied. The offsetting positive and negative changes in value are recorded without affecting the income statement.

currency conversion

Monetary assets and liabilities denominated in foreign currencies are generally translated at the mean spot exchange rate on the balance sheet date as part of subsequent valuation. With a remaining term of one year and less, the realization principle (Section 298 (1) in conjunction with Section 252 (1) No. 4 half-sentence 2 HGB) and the acquisition cost principle (Section 298 (1) in conjunction with Section 253 (1) sentence 1 HGB) apply non-exchange rate related changes in value are not applied.

Non-monetary assets acquired in a foreign currency are only translated at the time of acquisition. Subsequent measurement is based on the acquisition costs recorded in local currency at the time of acquisition.

With the exception of equity (subscribed capital, reserves, earnings carried forward), which is translated at the historical mean spot exchange rate at the time of initial consolidation, the asset and liability items in the annual financial statements prepared in a foreign currency are translated into euros at the respective mean spot exchange rate on the balance sheet date. The items in the income statement have been converted into euros at the average exchange rate. The resulting translation difference is reported within the consolidated equity after the consolidated retained earnings under the item "Equity difference from currency translation".

Exchange rate-related differences from the consolidation of debts are generally included in the item “Equity difference from currency translation” without affecting the result. Effects on earnings from the valuation of the intra-group obligation in the annual financial statements of one of the companies included using the imparity/ realization principle in accordance with Section 252 (1) No. 4 and Section 256a HGB are eliminated with an effect on income and included in the item “Equity difference from currency translation”.

Argentina was classified as a hyperinflationary economy. The financial statements of the Argentinian subsidiary were adjusted for inflation effects prior to inclusion in the consolidated financial statements.

Consolidation Principles

Capital consolidation for companies or for purchased equity interests that were consolidated for the first time was done using the acquisition method at the time the company became a subsidiary.

The valuation of the shares belonging to the parent company is offset against the amount of the subsidiary's equity attributable to these shares. Equity is stated at the amount that corresponds to the fair value of the assets, liabilities and deferred items to be included in the consolidated financial statements at the time of consolidation. Any difference remaining after offsetting is reported as goodwill if it arises on the assets side and, if it arises on the liabilities side, under the item "Differential amount from capital consolidation" after equity. The difference amount is released to income,

The decisive point in time for determining the fair value of the assets, liabilities and prepaid expenses to be included in the consolidated financial statements and for the capital consolidation is the point in time when the company became a subsidiary. In the case of subsidiaries whose inclusion was previously waived in accordance with Section 296 HGB, the date of inclusion of the subsidiary in the consolidated financial statements is decisive.

Capital consolidation for companies or for purchased capital shares that were consolidated for the first time before January 1, 2010 was carried out using the revaluation method at the time of acquisition. As far as possible, we assigned the amounts to be capitalized to the relevant asset items; the remainder was reported as goodwill.

Receivables and liabilities between the consolidated companies were offset against each other as part of debt consolidation.

The intercompany profits resulting from intragroup deliveries and services were eliminated. The intercompany profits on holdings of investments accounted for using the equity method were eliminated on a pro rata basis. In accordance with the meaning of Section 304 (1) HGB, no interim results were eliminated from inventories that were delivered at a time when the delivering or receiving company was not included in the consolidated financial statements. Rather, these gains (losses) are considered to be realized for the Group.

Income and expenses between the companies included were offset against each other.

The deferred taxes attributable to consolidation measures affecting net income were accrued in accordance with § 306 HGB and combined with the deferred taxes from the individual financial statements.

The associated companies can be seen from the list of the scope of consolidation. It is recognized using the equity method in accordance with section 312 (1) HGB. As in previous years, the valuation is updated in the financial year by the proportionate annual result and changes in capital. The valuation methods of the associated company are adjusted to the standard group valuation.

Notes to the consolidated balance sheet

Capital assets

The development of the individual fixed asset items is shown on the last page of these notes.

financial investments

In the following cases, financial instruments belonging to the financial assets were reported with a book value above the fair value in exercising the valuation option according to Section 253 (3) sentence 6 HGB:

	book value	fair value
	kEUR	kEUR
Shares	3.118	2,947
bonds	1,265	1,240
Other	930	904

There was no unscheduled write-down because the price of securities up to and on the reporting date had not fallen below the thresholds set by the company for the indication of permanent impairment and because the impairment is unlikely to be permanent due to minor price fluctuations.

Shares in investment funds

The company holds shares of more than 10% in domestic investment funds.

	value of shares	Difference to book value	Distribution for the financial year
investment objective	kEUR	kEUR	kEUR
special fund	104,605	4,605	0

The fund's investment objective is long-term real asset growth, although price fluctuations must be taken into account. Income is generated from interest and dividends received and from the sale of assets. The aim is to invest in assets that can be liquidated in the short term.

There are no restrictions on the daily return option.

current assets

Inventories were combined into one item in the balance sheet in accordance with Section 298 (1) in conjunction with Section 265 (7) HGB and include the following items:

	12/31/2019	12/31/2018
	kEUR	kEUR
Raw materials and supplies	65,276	58,866
Unfinished products	46,763	43,498
Finished Goods and Goods	200,623	196,229
Advance payments made	5,370	3,800
	318,032	302,393

Receivables and other assets have the following maturities:

	12/31/2019	12/31/2018
	kEUR	kEUR
1. Trade accounts receivable	310,225	298,957
of which remaining term of more than one year	199	3,558
2. Claims against shareholders	6,002	499
of which remaining term of more than one year	0	0
3. Receivables from affiliated companies	1	0
of which remaining term of more than one year	0	0
4. Receivables from companies in which a participation is held	21	0
of which remaining term of more than one year	0	0
5. Receivables from related companies	1,921	1,890
of which remaining term of more than one year	0	0
6. Other Assets	49,653	73,696
of which remaining term of more than one year	3.196	2,612
	367,823	375,042

As in the previous year, receivables from shareholders relate to clearing transactions. Receivables from related companies include trade accounts receivable in the amount of EUR 951 thousand (previous year: EUR 812 thousand) and other clearing transactions, as in the previous year.

Deferred tax assets

The deferred tax assets stem primarily from deductible temporary differences (of which EUR 31,522 thousand (previous year: EUR 25,034 thousand) from consolidation measures affecting profit or loss, such as debt consolidation and the elimination of interim results).

The calculation was based on tax rates of 12.6% to 14.0% (trade tax) and 15.0% (corporate income tax) for domestic deferred taxes. Corresponding tax rates for comparable foreign taxes were used for foreign deferred taxes.

Equity capital

In addition to the contributions of the limited partners agreed in the partnership agreement for KST in the amount of EUR 1,889,223.50 (DM 3,695,000.00), further amounts totaling EUR 146,935,296.05 were posted to the capital accounts of the limited partners. These are other additional payments analogous to Section 272 (2) No. 4 HGB, which are recorded directly as limited partnership capital due to their legal form. This should not be associated with a change in the contributions agreed in the articles of association.

The disclosure of the statutory reserves relates exclusively to KST.

The other retained earnings break down as follows:

	12/31/2019	12/31/2018
	EUR	EUR
KST	20.278.136	20.278.136
SEPT	6,500,000	6,500,000
KSTE RA	631,691	631,691
Viendis CH	39,920	39,920
KSTE UA	5,806	5,806
	27,455,553	27,455,553

The development of equity in accordance with the provisions of German Accounting Standard No. 22 (DRS 22) is shown in the consolidated statement of changes in equity.

Equity difference from currency translation

	12/31/2019	12/31/2018
	EUR	EUR
Exchange rate changes from capital and debt consolidation	25.196.443	8,790,061
Exchange rate changes from the translation of the income statements of consolidated subsidiaries	267,488	1,270,589
	25,463,931	10,060,650

Group result

In accordance with the provisions of the articles of association in connection with the shareholder resolution of April 1, 2020, profit shares of the parent company are to be attributed to the loan accounts of the shareholders in the respective following year after priority allocation to reserves and repayment of any loss carryforwards. The allocation to reserves is 25% of the net income for the year, whereby the shareholders can decide on a lower or higher allocation, but no more than a rate of 35%. Shares in losses are offset in full against retained earnings.

Other provisions

The other accruals were formed primarily for personnel obligations, guarantee obligations, outstanding invoices and other accruals.

Information on offsetting according to §§ 298 Para. 1 i. In conjunction with Section 246 (2) sentence 2 HGB

	kEUR
Settlement amount of the offset debts	929
Acquisition costs of the assets	501
Fair value of assets	502
Charged Expenses	7
Offsetting Income	1

The difference according to Section 253 (6) HGB is EUR 0 thousand (previous year: EUR 6 thousand).

liabilities

The remaining terms and the collateral for the liabilities are shown in detail in the schedule of liabilities.

Liabilities schedule in EUR thousand

type of liability		remaining term			In total	
	up to 1 year	1 to 5 years	over 5 years	secured with	12/31/2019	12/31/2018
1. Promissory note loan	0	154,000	96,000	0	250,000	
(Previous year)	(0)	(0)	(250,000)	(0)		(250,000)
2. Liabilities to banks	1,667	4,450	10,880	16.102	16,997	
(Previous year)	(2,324)	(5,792)	(11,938)	(17.147)		(20,054)
3. Deposits Received on Orders	44,329	0	0	0	44,329	
(Previous year)	(38,790)	(0)	(0)	(0)		(38,790)
4. Trade Accounts Payable	55,752	0	0	0	55,752	
(Previous year)	(53,227)	(15)	(0)	(0)		(53,242)
5. Liabilities to shareholders	71.013	0	0	0	71.013	
(Previous year)	(41,245)	(0)	(0)	(0)		(41,245)
6. Liabilities to affiliated companies	0	0	0	0	0	
(Previous year)	(88)	(0)	(0)	(0)		(88)
7. Liabilities to companies in which an investment relationship exists	764	0	0	0	764	
(Previous year)	(464)	(0)	(0)	(0)		(464)
8. Liabilities to related companies	42,670	42,487	6,453	0	91,610	
(Previous year)	(68,514)	(37,453)	(6.212)	(0)		(112.179)
9. Other Liabilities	63,060	1,514	124	0	64,698	
(Previous year)	(61,407)	(1,159)	(148)	(0)		(62,714)
- thereof from taxes	16,089	227	0	0	16,316	
(Previous year)	(13,864)	(0)	(0)	(0)		(13,864)
- of which within the framework of social security	2.321	0	0	0	2.321	
(Previous year)	(2,253)	(0)	(0)	(0)		(2,253)

On April 5, 2017, Karl Storz SE & Co. KG placed a promissory note loan for EUR 250,000 thousand. The inflow of funds took place on April 7, 2017. The total volume is divided into three tranches with maturities of two times seven and one of ten years, leading to a broader diversification of the maturity profile. The average annual interest rate is around 1.85% for both fixed and variable interest tranches. The promissory note loan was arranged by Deutsche Bank AG, DZ Bank AG and Landesbank Baden-Württemberg and signed by numerous banks in Germany and abroad. The first lender in this context is DZ Bank AG.

The funds are used for general corporate financing and strengthen strategic liquidity.

Liabilities to banks are secured by registered land charges valued at EUR 16,102 thousand.

As in the previous year, liabilities to shareholders relate to clearing transactions. Liabilities to companies in which an investment is held include liabilities from deliveries and services amounting to EUR 764 thousand (previous year: EUR 464 thousand). Liabilities to related companies include EUR 14,671 thousand (previous year: EUR 15,198 thousand) in liabilities from deliveries and services and other clearing transactions.

Passive accruals and deferrals

This includes accruals and deferrals due to patent infringement lawsuits in the amount of EUR 6,836 thousand (previous year: EUR 8,803 thousand).

Notes to the consolidated income statement

	2019		2018	
	kEUR	%	kEUR	%
revenues				
- Divisions				
human medicine	1,856,325	97.9	1,669,655	97.6
veterinary medicine	18,694	1.0	16,987	1.0
Industrial Group	10,727	0.6	11,732	0.7
Rest	10,358	0.5	11,140	0.7
	1.896.104	100.0	1,709,514	100.0
- Regions				
America	849,056	44.8	743,780	43.5
Other countries	523,521	27.6	482,364	28.2
Rest of Europe	396,609	20.9	365,653	21:4
Germany	126,918	6.7	117,717	6.9
	1.896.104	100.0	1,709,514	100.0

In the financial year, wages and salaries amounted to EUR 552,209k (prior year: EUR 501,892k), social security contributions and expenses for pensions and support to EUR 105,389k (prior year: EUR 78,105k), of which EUR 15,193k (prior year: EUR 12,991k) for pensions.

Other operating income includes income relating to other periods from the reversal of value adjustments and provisions as well as gains from the disposal of assets totaling EUR 9,863k (prior year: EUR 7,031k). Exchange rate gains of EUR 26,892k (prior year: EUR 31,969k) are partially related to other periods. The previous year included extraordinary income of EUR 32,095 thousand relating to other periods due to patent infringement lawsuits by our American subsidiary.

Other operating expenses include expenses relating to other periods from losses from the disposal of assets amounting to EUR 734 thousand (previous year: EUR 548 thousand). Exchange rate losses of EUR 33,698k (prior year: EUR 38,903k) are partially related to other periods. Furthermore, the other operating expenses include additions to the value adjustments on receivables in the amount of EUR 1,359 thousand (previous year: EUR 12,197 thousand).

Interest income includes interest of EUR 8 thousand (previous year: EUR 8 thousand) from affiliated companies.

Interest expenses include interest of EUR 177 thousand (previous year: EUR 127 thousand) to affiliated companies.

Income taxes include deferred tax expenses of EUR 10,937 thousand (previous year: EUR 13,296 thousand) and deferred tax income of EUR 1,586 thousand (previous year: EUR 985 thousand). This item includes income from credits in the amount of EUR 932 thousand, which are not related to the period. In the previous year, tax expenses of EUR 1,112 thousand were related to other periods.

Other Information

contingent liabilities

	kEUR
guarantees	3.197
warranty obligations	1,731
Rest	131
	5,059

The risk of claims arising from the contingent liabilities mentioned above is considered to be low based on the experience of the past few years with regard to the contingent liabilities mentioned.

Off-Balance Sheet Transactions

	kEUR
Rental and leasing contracts	46,525

The purpose and advantages of the rental and leasing contracts are the procurement of liquidity and the partial avoidance of residual value risks. Risks lie in the contractual commitment over the entire term.

The fees incurred in 2019 from a patent license agreement that can be terminated on an annual basis amounted to TCHF 273. The purpose of the agreement is to enable the Company as the licensee to use patent rights. The license fees are based on the net sales prices of those products or product parts that are manufactured using the contractual property rights. The advantage lies in the fact that license fees are only incurred depending on the sales situation. The risks lie in the associated outflow of liquidity. The contract is not terminated as of December 31, 2019. As patent licenses expire, expenses are expected to decline steadily.

Other miscellaneous financial obligations

In addition, the following financial obligations arise:

	kEUR
maintenance contracts	30,532
grant agreements	15,077
purchase commitment	7,615
purchase obligation	7.206
consultancy contracts	4,042
License Agreements	1,077
	65,549

The purpose and advantages of the grant agreements are the use of third-party know-how in the medical technology sector for the purposes of society. Risks lie in a possible lack of subsequent usability of the development work.

Derivative financial instruments

The following derivative financial instruments exist as part of risk management:

Type of Financial Instrument	Due	nominal amount	fair value	book value	in balance sheet items
		kEUR	kEUR	kEUR	
Currency-Related Transactions					
forward exchange transaction	2020	13,377	81	N/A	N/A
forward exchange transaction	2020	13,301	79	N/A	N/A
forward exchange transaction	2020	12,228	79	N/A	N/A
forward exchange transaction	2020	3,000	85	N/A	N/A
forward exchange transaction	2020	3,000	85	N/A	N/A
forward exchange transaction	2020	3,000	59	N/A	N/A
forward exchange transaction	2020	3,000	82	N/A	N/A
forward exchange transaction	2020	3,000	58	N/A	N/A
forward exchange transaction	2020	3,000	57	N/A	N/A
forward exchange transaction	2020	2,670	-21	N/A	N/A
forward exchange transaction	2020	1,000	26	N/A	N/A
forward exchange transaction	2020	1,000	26	N/A	N/A
forward exchange transaction	2020	1,000	19	N/A	N/A
forward exchange transaction	2020	1,000	19	N/A	N/A
forward exchange transaction	2020	1,000	19	N/A	N/A
forward exchange transaction	2020	1,000	19	N/A	N/A
forward exchange transaction	2020	1,000	19	N/A	N/A
forward exchange transaction	2020	1,000	19	N/A	N/A
forward exchange transaction	2021	750	20	N/A	N/A
forward exchange transaction	2020	516	16	N/A	N/A
forward exchange transaction	2020	400	16	N/A	N/A
forward exchange transaction	2020	301	16	N/A	N/A
forward exchange transaction	2020	257	16	N/A	N/A
forward exchange transaction	2020	157	16	N/A	N/A
forward exchange transaction	2020	250	-1	N/A	N/A
forward exchange transaction	2020	250	-1	N/A	N/A
forward exchange transaction	2020	250	-1	N/A	N/A
forward exchange transaction	2020	250	-1	N/A	N/A
forward exchange transaction	2020	250	-1	N/A	N/A
forward exchange transaction	2020	250	5	N/A	N/A
forward exchange transaction	2020	250	5	N/A	N/A
forward exchange transaction	2020	250	5	N/A	N/A
forward exchange transaction	2020	175	12	N/A	N/A
forward exchange transaction	2020	175	12	N/A	N/A
forward exchange transaction	2020	175	12	N/A	N/A
forward exchange transaction	2020	175	12	N/A	N/A
forward exchange transaction	2020	175	12	N/A	N/A
forward exchange transaction	2020	175	12	N/A	N/A
forward exchange transaction	2020	175	12	N/A	N/A
forward exchange transaction	2020	175	12	N/A	N/A
forward exchange transaction	2020	175	9	N/A	N/A
forward exchange transaction	2020	175	9	N/A	N/A
forward exchange transaction	2020	175	9	N/A	N/A
forward exchange transaction	2020	175	9	N/A	N/A
forward exchange transaction	2020	175	9	N/A	N/A
forward exchange transaction	2020	175	9	N/A	N/A
forward exchange transaction	2020	175	9	N/A	N/A
forward exchange transaction	2020	175	9	N/A	N/A
forward exchange transaction	2020	175	9	N/A	N/A
forward exchange transaction	2020	175	7	N/A	N/A
forward exchange transaction	2020	175	7	N/A	N/A
forward exchange transaction	2020	175	7	N/A	N/A
forward exchange transaction	2020	175	7	N/A	N/A
forward exchange transaction	2020	175	8th	N/A	N/A
forward exchange transaction	2020	175	7	N/A	N/A
forward exchange transaction	2020	175	8th	N/A	N/A
forward exchange transaction	2020	175	7	N/A	N/A
forward exchange transaction	2020	175	7	N/A	N/A
forward exchange transaction	2020	175	8th	N/A	N/A

Type of Financial Instrument	Due	nominal amount kEUR	fair value kEUR	book value kEUR	in balance sheet items
forward exchange transaction	2020	175	8th	N/A	N/A
forward exchange transaction	2020	175	8th	N/A	N/A
forward exchange transaction	2020	175	8th	N/A	N/A
forward exchange transaction	2020	175	8th	N/A	N/A
forward exchange transaction	2020	175	8th	N/A	N/A
forward exchange transaction	2020	175	8th	N/A	N/A
forward exchange transaction	2020	175	8th	N/A	N/A
forward exchange transaction	2020	175	8th	N/A	N/A
forward exchange transaction	2020	175	8th	N/A	N/A
forward exchange transaction	2020	175	3	N/A	N/A
forward exchange transaction	2020	175	3	N/A	N/A
forward exchange transaction	2020	175	3	N/A	N/A
forward exchange transaction	2020	175	3	N/A	N/A
forward exchange transaction	2020	175	3	N/A	N/A
forward exchange transaction	2020	175	3	N/A	N/A
forward exchange transaction	2020	175	2	N/A	N/A
forward exchange transaction	2020	175	2	N/A	N/A
forward exchange transaction	2020	175	2	N/A	N/A
forward exchange transaction	2020	175	2	N/A	N/A
forward exchange transaction	2020	175	2	N/A	N/A
forward exchange transaction	2020	175	2	N/A	N/A
forward exchange transaction	2020	175	2	N/A	N/A
forward exchange transaction	2020	175	1	N/A	N/A
forward exchange transaction	2020	175	1	N/A	N/A
forward exchange transaction	2020	175	1	N/A	N/A
forward exchange transaction	2020	175	1	N/A	N/A
forward exchange transaction	2020	175	1	N/A	N/A
forward exchange transaction	2020	175	1	N/A	N/A
forward exchange transaction	2020	175	1	N/A	N7A
forward exchange transaction	2020	125	3	N/A	N/A
forward exchange transaction	2020	125	2	N/A	N/A
forward exchange transaction	2020	125	2	N/A	N/A
forward exchange transaction	2020	125	2	N/A	N/A
forward exchange transaction	2020	125	2	N/A	N/A
forward exchange transaction	2020	125	2	N/A	N/A
forward exchange transaction	2020	125	2	N/A	N/A
forward exchange transaction	2020	125	2	N/A	N/A
forward exchange transaction	2020	125	5	N/A	N/A
forward exchange transaction	2020	125	5	N/A	N/A
forward exchange transaction	2020	125	5	N/A	N/A
forward exchange transaction	2020	125	5	N/A	N/A
forward exchange transaction	2020	125	5	N/A	N/A
forward exchange transaction	2020	125	5	N/A	N/A
forward exchange transaction	2020	125	6	N/A	N/A
forward exchange transaction	2020	125	6	N/A	N/A
forward exchange transaction	2020	125	6	N/A	N/A
forward exchange transaction	2020	125	6	N/A	N/A
forward exchange transaction	2020	125	7	N/A	N/a
forward exchange transaction	2020	125	7	N/A	N/A
forward exchange transaction	2020	125	7	N/A	N/A
forward exchange transaction	2020	100	15	N/A	N/A

The following currencies are affected in the forward exchange transactions: GBP, ZAR, USD, CAD and CHF.

All fair values of the derivative financial instruments were determined using the mark-to-market method.

The derivative financial instruments at fair value include unrecognized negative values of EUR 26k from forward exchange transactions. Since the underlying transactions are closed positions, there was no need for provisions.

valuation units

The following valuation units were formed:

Underlying transaction/hedging instrument	Risk / type of valuation unit	included amount	Amount of hedged risk
(1) Planned sales in EUR/ forward exchange transactions	Foreign currency risk/micro hedge	EUR 23,925 thousand	EUR 838 thousand
(2) Planned sales in EUR/ forward exchange transactions	Foreign currency risk/micro hedge	EUR 18,000 thousand	EUR 426 thousand
(3) Planned purchases in USD/Forex futures	Foreign currency risk/micro hedge	TUSD 45,000	EUR 239 thousand
(4) Projected sales in USD/ FX forwards	Foreign currency risk/micro hedge	TUSD 3,000	EUR 21 thousand

Underlying transaction/hedging instrument	Risk / type of valuation unit	included amount	Amount of hedged risk
(5) Planned sales in EUR/ forward exchange transactions	Foreign currency risk/micro hedge	EUR 1,732 thousand	EUR 41 thousand

to (1), (2) and (5):

Forward exchange transactions were concluded by three subsidiaries for planned purchases of finished goods in 2020 from the parent company, which are invoiced in EUR. Anticipatory valuation units were formed for these in view of the reliably plannable scope and timing. The opposing cash flows of the underlying and hedging transactions are expected to balance each other out in full in the 2020 hedging period because the risk positions (underlying transactions) will be hedged by forward exchange transactions in the same amount in the same currency and term immediately after they arise. The "critical terms match method" is used to measure the effectiveness of the hedging relationship.

to (3) and (4):

Forward exchange contracts have been entered into by a subsidiary for planned purchases of finished goods in 2020 from the parent company, which will be invoiced in USD. Anticipatory valuation units were formed for these in view of the reliably plannable scope and timing. The opposing cash flows of the underlying and hedging transactions are expected to balance each other out in full in the 2020 hedging period, because the risk positions (underlying transactions) will be hedged by forward exchange transactions in the same amount in the same currency and term immediately after they arise. The "critical terms match method" is used to measure the effectiveness of the hedging relationship.

difference

According to Section 268 (8) HGB, there is a difference of the following amounts:

	kEUR
from the capitalization of deferred taxes	44.139
from the passivation	
Pension provisions Section 253 Paragraph 2 in conjunction with Paragraph 6 HGB	1,534

Employees

On average over the year, 5,656 white-collar workers and 1,717 blue-collar workers were employed.

Managing directors

Management is carried out by Karl Storz Verwaltungs SE, Tuttlingen, represented by the director with sole power of representation:

Mr. Karl-Christian Storz, Tuttlingen.

Members of the Board of Directors of Karl Storz Verwaltungs SE are Dr. hc mult. Sybill Storz, Tuttlingen, and Dr. Klaus M. Irion, Emmingen-Liptingen, and Ortwin Guhl, Tuttlingen.

supplementary report

After the balance sheet date, there were no events of particular importance that would have a significant financial impact. With regard to the future risks from the corona pandemic, we refer to our statements in the group management report in the sections "Opportunities and risks" and "Other prospects".

corporate relationships

KST is the parent company of the group (largest and smallest group). Disclosure takes place in the Federal Gazette.

Examination and Consulting Fees

The total fee charged by the auditor and its domestic affiliated companies for the financial year is:

	kEUR
Final Examination Services	301
Other Confirmation Services	5
Tax Advisory Services	0
Other services	3
	309

Tuttlingen, June 4, 2020

The management of Karl Storz Verwaltungs SE as the personally liable partner of Karl Storz SE & Co. KG:

signed Karl-Christian Storz, Managing Director

Development of Group fixed assets

	Acquisition/manufacturing costs			
	Status 01.01.2019	currency change	additions	Change in value due to the equity method
	EUR	EUR	EUR	EUR
I. Intangible assets				
1. Purchased industrial property rights and similar rights	118.705.499	1,099,560	2,312,221	0
2. Goodwill	28,043,916	209,509	203,423	0
	146.749.415	1,309,069	2,515,644	0
II. Tangible assets				
1. Land and buildings	344,945,000	3,540,495	10,086,938	0
2. Technical installations and machines	80.619.177	1,234,142	7,282,294	0
3. Other equipment, fixtures and fittings	225.359.902	2,189,362	35,638,800	0
4. Payments on account and assets under construction	6.408.153	40,909	33.611.328	0
	657.332.232	7,004,908	86.619.360	0
III. financial investments				
1. Shares in affiliated companies	102,265	0	0	0
2. Investments in associated companies	219,618	0	16,779	166,810
3. Other holdings	3,450,149	0	180,953	0
4. Loans to associates	0	0	2,449,629	0

	Acquisition/manufacturing costs			
	Status 01.01.2019	currency change	additions	Change in value due to the equity method
	EUR	EUR	EUR	EUR
5. Investment securities	33,772,292	-10,687	115.390.362	0
6. Other Loans	346,712	8,859	653,821	0
	37.891.O36	-1,828	118.691.544	166,810
	841.972.683	8,312,149	207.826.548	166,810

	Acquisition/manufacturing costs		
	transfers	departures	As of 12/31/2019
	EUR	EUR	EUR
I. Intangible assets			
1. Purchased industrial property rights and similar rights	1,522,632	690,204	122.949.708
2. Goodwill	0	146,490	28.310.358
	1,522,632	836,694	151.260.066
II. Tangible assets			
1. Land and buildings	6,937,949	6,244,155	359.266.227
2. Technical installations and machines	3,085,916	3,855,840	88.365.689
3. Other equipment, fixtures and fittings	10.451.055	17,923,650	255.715.469
4. Payments on account and assets under construction	-21,997,553	265,886	17,796,951
	-1,522,633	28,289,531	721.144.336
III. financial investments			
1. Shares in affiliated companies	0	85,674	16,591
2. Investments in associated companies	0	0	403.207
3. Other holdings	0	0	3,631,102
4. Loans to associates	0	0	2,449,629
5. Investment securities	0	2,418,934	146.733.033
6. Other Loans	0	66,844	942,548
	0	2,571,452	154.176.110
	-1	31,697,677	1.026.580.512

	Accumulated depreciation		
	Status 01.01.2019	currency change	additions
	EUR	EUR	EUR
I. Intangible assets			
1. Purchased industrial property rights and similar rights	101.059.333	822,396	6,788,376
2. Goodwill	26,774,880	209,509	276,346
	127.834.213	1,031,905	7,064,722
II. Tangible assets			
1. Land and buildings	97.509.773	993,614	11,722,236
2. Technical installations and machines	61,213,966	969,852	7,555,343
3. Other equipment, fixtures and fittings	127.180.078	1,423,436	29.610.276
4. Payments on account and assets under construction	895	20	0
	285.904.712	3,386,922	48,887,855
III. financial investments			
1. Shares in affiliated companies	0	0	0
2. Investments in associated companies	0	0	0
3. Other holdings	3,000,330	0	0
4. Loans to associates	0	0	0
5. Investment securities	44,388	0	212,827
6. Other Loans	0	0	0
	3,044,718	0	212,827
	416,783,643	4,418,827	56.165.404

	Accumulated depreciation		
	transfers	departures	As of 12/31/2019
	EUR	EUR	EUR
I. Intangible assets			
1. Purchased industrial property rights and similar rights	0	243,914	108.426.191
2. Goodwill	0	146,490	27.114.245
	0	390,404	135.540.436
II. Tangible assets			
1. Land and buildings	-193,620	3,248,476	106,783,527
2. Technical installations and machines	0	3,747,115	65.992.046
3. Other equipment, fixtures and fittings	193,620	8,823,616	149,583,794
4. Payments on account and assets under construction	0	915	0
	0	15.820.122	322.359.367

	Accumulated depreciation		
	transfers	departures	As of 12/31/2019
	EUR	EUR	EUR
III. financial investments			
1. Shares in affiliated companies	0	0	0
2. Investments in associated companies	0	0	0
3. Other holdings	0	0	3,000,330
4. Loans to associates	0	0	0
5. Investment securities	0	0	257,215
6. Other Loans	0	0	0
	0	0	3,257,545
	0	16.210.526	461.157.348

	book values	
	12/31/2019	12/31/2018
	EUR	EUR
I. Intangible assets		
1. Purchased industrial property rights and similar rights	14,523,517	17.646.166
2. Goodwill	1.196.113	1,269,037
	15,719,630	18.915.203
II. Tangible assets		
1. Land and buildings	252,482,700	247.435.227
2. Technical installations and machines	22,373,643	19.405.211
3. Other equipment, fixtures and fittings	106.131.675	98.179.824
4. Payments on account and assets under construction	17,796,951	6,407,258
	398,784,969	371.427.520
III. financial investments		
1. Shares in affiliated companies	16,591	102,265
2. Investments in associated companies	403.207	219,618
3. Other holdings	630,772	449,819
4. Loans to associates	2,449,629	0
5. Investment securities	146.475.818	33,727,904
6. Other Loans	942,548	346,712
	150.918.565	34,846,318
	565.423.164	425.189.041

The depreciation of financial assets in the financial year relates entirely to unscheduled depreciation in accordance with Section 253 (3) sentence 4 HGB, whereby a temporary impairment is assumed.

The book value of the item "Goodwill" comes from the amount of KEUR 1,157 (previous year: KEUR 1,217), the amortization on it in the amount of KEUR 263 from the capital consolidation.

The depreciation of the "goodwill" item does not contain any unscheduled depreciation in accordance with Section 253, Paragraph 3, Clause 4 of the German Commercial Code.

Group management report for 2019

Company fundamentals

business model

The company name and domicile of the abbreviations used in the group management report result from the scope of consolidation as part of the notes.

Modern endoscopy has revolutionized medical diagnostics and surgical techniques. The name KARL STORZ and the product inventions from seven decades have made technological progress possible and accompanied it.

The KARL STORZ company - manufacturer of endoscopes and endoscopic instruments and devices - was founded in 1945 by Dr. medical hc Karl Storz in Tuttlingen (Germany). In 75 years of successful market presence, it has grown into a supplier known worldwide for quality and product innovations. From its headquarters in Tuttlingen (Germany), the company has developed from a two-man operation into a globally active company with today 8,000 employees worldwide.

The KARL STORZ Group includes manufacturing companies in Germany, Switzerland, Estonia and the USA. In addition, there are sales and marketing companies in the countries included in the scope of consolidation.

Since January 2019, Mr. Karl-Christian Storz has been the sole Managing Director of KARL STORZ SE & Co. KG and is thus continuing the tradition of the family company in the third generation. At the same time, Dr. hc mult. Sybill Storz - daughter of the company founder - joined the board of directors of Karl Storz Verwaltungs SE and supports the company as chairwoman of the board of directors.

Also in January 2019, Karl-Christian Storz appointed a seven-person Executive Management Team with the functions of Global Innovation Management, Global Operations, Global Sales & Marketing, Global Finance, Global Legal/Compliance/Regulatory Affairs, Global IT and Global HR supports him in the implementation of his business strategy.

The business strategy is geared towards long-term and sustainable consistent quality from within the company. The market offer consists mainly of home-made products and, to a lesser extent, merchandise. In order to ensure an optimal division of labor in the KARL STORZ Group, product development is also carried out at each production site.

KARL STORZ is thus able to continuously serve physicians with product solutions from head to toe, i.e. with products for the following specialist areas:

neurosurgery	spine surgery
Dental, oral, maxillofacial surgery	microscopy
Otorhinolaryngology	paediatrics

Plastic surgery	MTP disposable products
anesthesia and emergency medicine	telepresence
Cardiovascular Surgery	Devices
thorax	navigation
gastroenterology	fluorescence imaging
NOTES (Natural Orifice Translumenal Endoscopic Surgery) and related procedures	OFFICE1
laparoscopy	OR1 ™ - The integrated operating room
gynecology	ORchestrion®
urology	ENDOPROTECT 1
proctology	hygiene
Arthroscopy and Sports Medicine	KARL STORZ Solutions
	Emergency and Disaster Medicine

The growing need for integration in the clinical environment is met with the development and sale of an independent integration platform for all devices used in the operating room. KARL STORZ has been a pioneer in this area since the late 1990s and has expanded its decades of expertise in the fields of optics, mechanics and electronics to include the software technology pillar in a forward-looking manner. Such a system was successfully established on the market under the name OR1™, which, in addition to the integration of device control, also enables central image and video documentation as well as unhindered data exchange inside and outside the operating room.

The main production sites are in Switzerland and the USA, with the company's main production site still being in Tuttlingen.

The technologies required for the product range are developed by the KARL STORZ Group or in cooperation with research institutions and perfected in the group's own production facilities and then produced after a corresponding decision on market opportunities and possible market volumes.

In addition to human medicine, KARL STORZ also offers endoscopic systems for veterinary medicine and for technical applications such as aviation, vehicle technology and traffic, power generation, the process industry, security and infrastructure.

Sustainability as a corporate value

As a family-run and medium-sized company, the KARLSTORZ company has pursued the values of sustainability, quality and innovation since it was founded in 1945. Dealing with employees, customers and business partners in a trusting, honest and fair manner is firmly rooted in the corporate culture and is laid down in the KARL STORZ Code of Conduct. KARL STORZ has been making business decisions for 75 years and paying attention to the effects these have on employees, customers, business partners and society. As a traditional family business, the company wants to enable future generations to use resources, creativity, experience and knowledge in such a way

In order to publicly confirm these values and promote them in the long term, KARL STORZ has been active in the United Nations Global Compact since 2004. The United Nations Global Compact is a voluntary initiative through which the company commits itself to sustainable and ethical business practices and to compliance with ten principles in the areas of human rights, labor standards, environmental protection and anti-corruption. In the annual Global Compact progress report, KARL STORZ provides transparent information on how the principles mentioned have been observed and promoted in day-to-day business. In the Global Compact Progress Report 2019, initiatives to promote medical training,

Research and Development

KARL STORZ SE & Co. KG is a technology-oriented company that primarily researches technologies developed independently, in a group of companies or on behalf of others and brings them to series production, and then manufactures them in its own production facilities. Against this background, the areas of research and development are central areas of the company. In a world market that is constantly evolving, which is characterized by progress in minimally invasive medical technologies combined with new methods of electronic image acquisition and processing, KARL STORZ has placed great emphasis on the development of new therapeutic and diagnostic products which, on the one hand, open up fields of application,

Due to demographic change, even more diagnostic and therapeutic medicine will be required in the future. In order to counter this trend, it is necessary to further develop medical technology accordingly. Representative examples of this from KARL STORZ are the expansion of the highly integrated operating room (OR1™), in which the products are networked as an integrated overall system. In addition to the transition from purely two-dimensional imaging endoscopes to the latest generation of high-resolution 3D video endoscopes, endoscopic products have been expanded in terms of the field of vision into the near-infrared range.

New diagnostic and therapy-relevant information is provided by this advanced endoscopy technology. Endo visualization systems with a variable and extended field of vision have been newly developed and launched on the market.

The 4K image chain also represents the current standard in minimally invasive surgery. KARL STORZ offers the complete image chain from acquisition through processing to documentation and archiving in 4K. The latest technology from the field of 4K imaging helps the surgeons in their work by means of a clear representation of the finest structures, better depth perception and the proven S technologies. This is made possible by the higher resolution and the extended color space and implemented with the help of high-quality optics and light guides.

The IMAGE1® S Rubina system developed by KARL STORZ represents an extension of the product range, which enables near-infrared imaging in 4K resolution. Thanks to the simultaneous display of the white light image and the near-infrared signal, important additional information is available to the surgeon directly during the endoscopic work.

On the research side, new innovative joint projects in the areas of networking, digital data and workflow analysis were initiated and pursued (Big Data, Smart Data, Data Analysis). The company's innovative strength was recognized this year with the internationally renowned Red Dot Award for the outstanding design quality and functionality of the KARL STORZ HyDome™ system in the "Product Design 2019" category.

In addition to innovative new developments, existing products are continuously optimized by carefully testing and evaluating experience gained from using the products and incorporating them into series production as quickly as possible. On the one hand, research and development is carried out by our own centers, on the other hand, to a considerable extent, by way of contract research and within the framework of joint research projects with renowned universities and research institutions worldwide. In addition to the use of a broad medical knowledge base, contract research also uses synergy effects through the integration of technical and scientific institutions.

Economic and sectoral development

After the decline in growth in the previous year, the economic development of the world economy is still very subdued and the pace of growth has slowed down significantly. This development is particularly influenced by the weakness of the industry. The volume of world trade also declined. Increased uncertainties such as trade conflicts resulted in subdued investment growth.

Global trading volume declined for three consecutive quarters. China and the other Asian emerging countries were the main contributors to the decline in import volumes. In addition, there was a significant decline in the other advanced economies, including the United Kingdom, in the second quarter. Growth also faltered in the other regions. Growth rates also declined in the euro area. Investments and exports in particular showed weak development here.

Germany is particularly affected by the slowdown in economic momentum, especially in industry. The openness of the German economy and the strong focus on capital goods seem to play a role here. A cyclical allocation shows that industry is in recession while services are proving resilient so far.

The medical technology sector in Germany was also unable to maintain the growth level of previous years. The sales development is declining compared to the previous year. Falling prices and higher costs also led to a worsening of the profit situation. This downward trend continues to be influenced by increasing regulatory requirements from the EU Medical Devices Regulation. So far, exports have proven to be stable, with significantly stronger sales growth being achieved worldwide than domestically.

Sales and earnings situation

In the 2019 financial year, the KARL STORZ Group generated sales of EUR 1,896.1 million and thus increased sales by 10.9% compared to the previous year. The sales growth in the high single-digit range forecast in the previous year was exceeded.

The development of external sales is distributed among the main companies as follows:

	2019	2018	change
	million euros	million euros	million euros
KSEA USA	681	596	85
KST	426	411	15
COAST CN	229	212	17
COAST RUSSIA	76	60	16
KSTE GB	63	55	8th

Our largest sales market is America with a 44.8% share of total sales. However, we were able to record the highest growth rates in Eastern Europe. Currency-related translation gains in the sales revenue amount to approx. EUR 40.2 million. These stem mainly from the development of the US dollar exchange rate. The translation gain is roughly calculated from the difference in the translation of sales based on the underlying cumulative average rates of the current year and the previous year. There were no significant changes in the product mix by subject area in 2019. Our telepresence areas with cameras and image processing systems maintained their leading position in the sales portfolio across all medical specialties. Furthermore, the area of urology accounts for a significant share of sales.

With an increase of 10.3%, the cost of sales developed at a lower rate than sales, so that the cost of sales ratio was reduced by a total of 0.2 percentage points to 43.7%. This development is due to the high performance relationships in the Swiss franc and in the US dollar area.

Selling expenses increased by 10.5% compared to the previous year, slightly less than sales. This includes costs for sales and marketing activities, the implementation and control of sales promotion activities, the design of marketing strategies and commission expenses. The reason for the increase in selling expenses is higher personnel costs due to the expansion of employee capacities.

Due to our high focus on research and development, our expenses increased from EUR 94.7 million in the previous year to EUR 103.5 million in 2019, which corresponds to an increase of 9.3%. The R&D rate stagnated at 5.5 percent compared to the previous year.

General and administrative expenses increased by 17.3% from EUR 189.1 million in the previous year to EUR 221.7 million. The increase results from higher personnel expenses.

Other operating income and expenses fell by 39.8% and 25.8% respectively compared to the previous year. Compared to the previous year, we received a reduced result of EUR 17.4 million in 2019. In the previous year, we realized income from a patent infringement lawsuit by our American subsidiary in the amount of EUR 32.1 million. The decline in other operating expenses can be attributed to significantly lower additions from individual value adjustments on receivables.

We were able to improve our financial result by EUR 2.4 million (22.3%) compared to the previous year.

The KARL STORZ Group achieved a profit after tax of EUR 136.6 million in 2019. The previous year's result is EUR 4.1 million or 2.9% below. This is mainly due to the proceeds from the patent infringement lawsuit from the previous year and an increase in the tax rate in 2019 by 1.9 percentage points to 20.8%.

asset and financial position

The balance sheet total increased by 8.4% to EUR 1,623.5 million in the year under review.

On the assets side, non-current assets increased by a total of EUR 140.2 million, mainly due to the purchase of securities held as financial assets in the amount of EUR 115.4 million.

Our receivables and other assets decrease by a total of EUR 7.2 million due to a claim from patent infringement lawsuits in other assets that was still open in the previous year, which was settled in 2019. Cash and cash equivalents declined by EUR 40.0 million, which is attributable to investments in long-term securities.

On the liabilities side of the balance sheet, group equity increased by EUR 84.9 million to EUR 747.8 million, in particular due to increased profit carried forward. The group equity ratio rose from 44.3% to 46.1%. The area of provisions increased by a total of EUR 20.5 million. This is mainly due to the other provisions in the area of personnel and production. The placement of the promissory note issue in the amount of EUR 250.0 million issued in 2017 secures the long-term financing requirements over a remaining term of five and eight years.

Overall statement on the asset, financial and earnings situation

Overall, we see the development of the net assets, financial position and results of operations in the 2019 financial year as very positive.

Opportunity and risk report

Due to its involvement in the global business world, KARL STORZ is exposed to external and internal influences that result from commercial activities.

We see opportunities in particular in new innovative products, the constant optimization of our business processes in terms of efficiency and effectiveness, our qualified specialists and the expansion of our business relationships. On the other hand, risks can arise at the microeconomic level due to changes in the market environment and at the macroeconomic level due to changes in the political, legal and financial environment. The regulation by new laws in the medical technology and health sector should be mentioned here in particular. Our aim is to seize opportunities while at the same time recognizing and minimizing risks at an early stage.

chances and risks

Macroeconomic

As a globally operating company, we are exposed to macroeconomic changes in many countries and markets.

According to the International Monetary Fund (IMF), a slowdown in global economic momentum has already made itself felt over the past two years. However, the forecast for global economic development was significantly influenced by the current COVID-19 pandemic in particular. Within a few months between January and April 2020, the IMF forecast was corrected from stable growth of 3.3% to a decline of 3.0%, which effectively corresponds to an economic slump. Growth is only realistic again in 2021, although this estimate depends primarily on the duration of the pandemic.

While the economic effects of the corona pandemic initially affected China in particular, the People's Republic is now on the road to recovery. Since the restrictions on public life have already been eased again, the Chinese economy could grow slightly by 1.2% in 2020 according to the IMF. The trade conflict with the USA remains tense and could have a negative impact on growth.

For the USA, the IMF expects a decline of 5.9% in 2020. The euro zone economy is likely to shrink by 7.5% and Germany's economic output by 7.0%.

Uncertainties also remain in connection with the Brexit that took place on January 31, 2020. For example, the ultimate form of future tax and customs regulations remains uncertain. The Company may experience cost increases from the potential collection of import duties. In preparation for the possible exit variants, we have taken appropriate precautions both on the part of our subsidiaries in the UK and at the parent company, so that we classify the risk as low.

Due to our international orientation, we can keep dependence on individual regions within limits and continue our business activities largely stably.

COVID-19 pandemic

The increasing spread of the corona virus is currently a very big challenge for KARL STORZ. Since this is a global crisis, all Group companies worldwide are affected to varying degrees. The risks associated with the crisis are very diverse. They range from procurement bottlenecks, to temporary employee absences due to infections or quarantine orders, to a drop in orders in individual product segments.

KARL STORZ took various measures at an early stage with the aim of protecting employees in their working environment as best as possible and continuing to operate. These include e.g. B. shift work, home office, physical separation, use of protective masks in areas where the minimum distance cannot be maintained, etc. to consistently implement social distancing. With the activation of the global pandemic plan and the associated formation of local pandemic teams at all subsidiaries, the measures could be implemented across the entire group.

As a medical device manufacturer, maintaining operations is of central importance in order to provide patient care with our products in the best possible way. The corona crisis is currently leading to increased demand for all applications in the area of "airway management products" and thus to a shift in demand in the product portfolio. In order to manage this extraordinary demand situation, our employees are committed to supporting doctors, medical professionals and emergency services and thus patients worldwide.

Law and Compliance

Due to our internationality, we are bound by a large number of rules and regulations in many different countries. Violation can result in large fines or government sanctions. KARL STORZ stands exclusively for legal and ethical business practices and obliges both employees and business partners to behave in accordance with the law.

US companies of the KARL STORZ Group and the parent company are currently defendants in civil product liability lawsuits in the USA. As a reaction to the controversial public discussion about the benefits and risks of using morcellators, the FDA (US Food & Drug Administration), the responsible US approval authority for medical devices, has again reviewed the approval granted for morcellators. As a result, manufacturers were obliged in April 2014 to add an additional express warning; the approval for the product group remained otherwise unchanged.

The pending proceedings are being conducted by lawyers in the USA in close coordination with KARL STORZ's liability insurer.

On April 5, 2017, the European Parliament passed the new EU Medical Devices Regulation. This reorganizes the entire legal framework for medical devices in the EU. The subject of the classification of medical devices presents manufacturers with a central challenge. The expected changes in the Medical Device Regulation (MDR) require a new evaluation of medical devices. The continuous updating of the technical documentation, for example, is becoming significantly more extensive and takes up more resources in the company. At KARL STORZ, a project team is working on the timely implementation of the requirements. After a three-year transition period, the MDR will be effective from 26 April. May 2020 mandatory. The new EU legal framework will not lead to the simplification of placing medical devices on the EU internal market, as initially promised by the Commission, but will significantly complicate this process. This harbors the risk of delays in the market launch, as well as increased costs and the associated hurdles in marketing.

innovation and competition

In our industry we are in competition with numerous medical technology companies. Increasing competitive pressure can have a significant impact on the sales volume and pricing of our products. Short product life cycles and a high level of innovation are key characteristics of our industry. Our goal is to bring new, innovative products to market in good time. However, we cannot completely rule out the possibility that the products will not be available until later than planned due to project delays, that competitors will also place these products on the market or that these products will not be accepted by the market as originally expected.

Through ongoing development based on permanent monitoring of the market and the competition, we try to counteract emerging risks. Measures to minimize negative effects on the assets, earnings and financial position are a constant exchange with doctors and scientists, preparation and consideration of market and competition analyses, registration of patents to protect "intellectual property" as well as continuous further development of our portfolio The increasing digitization and networking in the OR are playing an increasingly important role.

staff

Our recruitment is characterized by intense competition for specialists with the appropriate qualifications and demographic challenges. Country and industry-specific fluctuation risks must be identified in advance and addressed in a targeted manner so that skills and competencies that are critical to success and business can be built up and maintained in the company in the long term.

A loss of employees in key functions represents a corresponding risk. KARL STORZ promotes the personal development of employees in order to strengthen employee loyalty. We use global talent and succession programs in a targeted manner.

In addition, we promote voluntary employee representation with the aim of regular dialogue between management and employees. This enables the workforce to actively communicate various topics, concerns, ideas and suggestions for improvement to management and to initiate improvements in the working environment.

procurement

In addition to market price fluctuations, quality and supply risks in particular can arise when procuring raw materials and products.

Quality controls along the entire value chain reduce the quality and availability risks of our products. This begins with the qualification of our suppliers and continues with comprehensive quality requirements for raw materials, externally sourced semi-finished products, etc.

When it comes to supply, a dependency on individual suppliers can arise. Should one of these suppliers limit, stop or interrupt production, this could potentially have a critical negative impact on the ability to deliver certain products in the portfolio. We reduce the effects of these risks through long-term strategic cooperation, framework agreements for supply-critical and price-critical primary products, and alternative procurement strategies (e.g. dual sourcing).

Furthermore, a timely supply of the supply chain with both merchandise and production material is ensured through close coordination with the suppliers in the context of procurement and the exchange of quality-related data. Securing this level is supported by supplier audits.

All warehousing decisions are made primarily under the aspect of security of supply, but also taking into account optimal working capital management.

product risks

Patient health and the safety of instruments and devices are top priorities at KARL STORZ. Quality assurance is therefore of outstanding importance, going beyond the legal requirements.

KARL STORZ has a certified quality management system to ensure product and process quality at all times and to minimize risks.

Detailed tests are carried out in close cooperation with accredited test centers in order to obtain the corresponding product certifications. Our manufacturing and testing processes for the instruments and devices are subject to constant monitoring.

Information Technology (IT)

Information technology used globally is becoming increasingly important at KARL STORZ. Due to the high dependency on IT systems, the security of these systems represents an important foundation for the success of the company. IT applications used worldwide form the basis for the performance of products and solutions. The failure of business-critical IT applications can therefore have a direct impact on our ability to deliver and the quality of the products. There are also risks with regard to unauthorized access to company data.

In order to minimize risks that endanger the confidentiality, availability and integrity of information, we continuously review our processes and technologies. If necessary, the systems are updated immediately and the corresponding processes are adapted.

In addition, our employees are informed, especially in the handling of data and data security, through training courses and work instructions. Despite implemented security measures, a residual risk cannot be completely ruled out.

Financially

KARL STORZ is a global company with sales in all regions of the world. Due to this international orientation, different risks arise, both within the framework of normal business operations from receivables and liabilities and from foreign currency transactions and investments. There are also interest rate risks in the area of financing.

The foreign currency risk of the KARL STORZ Group is controlled using various instruments. With USD-based cash flows, largely balanced currency flows are achieved through the USD invoicing of the parent company to the US subsidiaries in purchasing and sales and a natural hedge is created, which limits the USD risk to a minimum. In the area of CHF exposure, such a natural hedge cannot be shown due to the asynchronous cash flows. We therefore limit the risk from these transactions through the targeted use of forward exchange transactions.

The goal of optimizing the group interest result of the KARL STORZ Group by taking out or granting intercompany loans was also maintained in 2019. This is intended to avoid the need for outside financing for individual subsidiaries. The interest rate risk, both within the group and for remaining bank loans, is reduced by taking out fixed-interest loans.

In the area of securities held as fixed assets, there is a potential risk of losses in value. We counter this risk by defining portfolio bandwidths for the asset classes when purchasing securities. In addition, we carry out regular monitoring of the investment valuations and take into account negative fluctuations in the balance sheet within appropriate value adjustments.

A general liquidity risk is possible bad debts in the operational business due to a deterioration in the payment behavior of our customers. To reduce this risk, we carry out consistent receivables management as part of a regular dunning process and secure foreign receivables in particular with letters of credit.

Another financial risk is meeting our payment obligations at all times and ensuring our financial flexibility. We counteract this liquidity risk with active liquidity management by holding appropriate reserves and using credit lines. A promissory note loan with a long-term fixed interest rate in several tranches was taken out in 2017 to secure long-term corporate financing. The placed issue in the amount of EUR 250 million secures the financing needs of the KARL STORZ Group. In order to minimize the interest rate risk, most of the total volume was subscribed in the fixed area.

Summary presentation

With the established risk management organization, KARL STORZ has a comprehensive overview of the risk portfolio, the possible effects and the associated opportunities. The optimization of the risk portfolio can be consistently pursued by regularly checking the changes in the risk assessment and the effectiveness of the measures. The overall assessment of the key opportunities and risks does not reveal any risks that alone or in combination with other risks could jeopardize the company's continued existence.

More prospects

According to a recent report by the International Monetary Fund (IMF), the growth rates of the economies have decreased significantly in the first few months, and the forecasts for 2020 have also declined, in particular due to the current COVID-19 pandemic. However, the medical technology industry is less affected by the global economic crisis. Furthermore, there is an increasing need for medical services worldwide and therefore also for our products, which is expected to increase due to the current crisis situation. The growth extends not only to classic AirWay management products, but also to the rest of the KARL STORZ portfolio. This need will continue to increase in the future, not least because of demographic change and in various regions. In addition, the current development of the fight against the corona virus shows the global underfunding of health budgets. We assume that as part of the countermeasures there will be more investment in the health care system.

The 2020 financial year has so far been stable in the first few months. Despite the currently tense economic environment, sales are higher than in the same period of the previous year. In addition, our incoming orders suggest that business will continue to develop positively in 2020. Overall, the first quarter developed successfully, the net profit for the year is above the previous year and plan.

On the value-added side, we expect higher expenses to meet the new European regulatory requirements, as well as rising personnel and raw material costs, which will have a negative impact on earnings. We counteract these cost factors in order to increase our productivity and profitability through ongoing cost management, the use of further potential savings, particularly in the current economic situation, and continuous process improvements.

Based on the development of the exchange rate for the US dollar and the CHF at the beginning of 2020, we assume that currency effects will only have a minor negative impact on earnings. Due to the current macroeconomic situation, it is not possible to conclusively assess whether this will continue in the manner shown.

Overall, in our planning for 2020, taking into account all the uncertainties, we assume sales at the level of the 2019 financial year or slightly below.

Tuttlingen, June 4, 2020

The management of Karl Storz Verwaltungs SE as the personally liable partner of Karl Storz SE & Co. KG:

signed Karl-Christian Storz, Managing Director

The consolidated financial statements for the 2019 financial year were approved on September 18, 2020.